सत्यमेव जयते

REPORT

OF THE

BANKING COMMISSION

GOVERNMENT OF INDIA

1972

1972

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R. G. Saraiya
Chairman

BANKING COMMISSION,
(Government of India)
"White House",
Walkeshwar Road,
BOMBAY—6.

January 31, 1972.

Shri Y. B. Chavan,
Minister of Finance,
Government of India,
NEW DELHI.

Dear Sir,

With reference to Government of India Resolution No. F.4 (70)-BC/68 dated February 3, 1969, appointing the Banking Commission with me as Chairman, I have pleasure in sending you herewith our Report which is unanimous.

Shortly after the establishment of the Commission, the 14 major Indian banks were nationalised. This was a landmark not only in the history of banking, but also of the socio-economic progress of our country. We have taken this development into account in our Report, and have made our recommendations in the new economic context. We trust that Government will find our recommendations of some use in shaping the future of the banking structure in India and banking and credit policies.

In conclusion I would like to express the gratitude of my colleagues and myself for the confidence shown in us by the Government of India in entrusting this work to us.

Yours faithfully,

R G Saraiya

(R. G. Saraiya)
CHAIRMAN.

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A crore = 10 millions

A lakh = one-tenth of a million

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CHAPTER 1

INTRODUCTION

GENESIS OF THE BANKING COMMISSION

1.1 It is nearly forty years since a comprehensive review of the banking system of the country was made by the Indian Central Banking Enquiry Committee which submitted its Report in 1931. A number of changes have taken place during this period in the economic, political and social fields. The Reserve Bank of India was established in 1935 to work as the custodian of the currency and credit system of the country and a special banking law was enacted in 1949. Since the attainment of Independence in August 1947 and even more so from the inception of planning in 1950-51, there have been many significant changes in the economic system. All these have had their impact on the banking system of the country. The various changes in the banking system and in the Government policy affecting banks reflect, in a large measure, the changing political and economic climate of the country. The adoption by the country of a socialistic ideology gave rise to a change in the public attitude towards banks and in the expectations of the public regarding services which the banks could render to the community at large.

1.2 Although the banking system generally grew in strength and stability during the last 40 years, complaints were heard, particularly in recent years, that it was deficient in terms of geographical and functional coverage and was not properly equipped to assist the attainment of the basic economic and social objectives, namely, rapid economic growth, diffusion of economic power and channelling of credit in accordance with the priorities of the Plans. It was felt that the pattern of ownership and organisational set up resulted in the control of commercial banks by large industrial and business interests and in the neglect of flow of credit to the rural and semi-urban areas as well as to the priority sectors like agriculture, small industries and exports and weaker sections of the community like small artisans and transport operators.

1.3 The policy of social control of banks was introduced in response to these persistent complaints of the deficiencies of the banking system. The basic postulate of the social control scheme was:

"to ensure that particular clients or groups of clients are not favoured in the matter of distribution of credit and whatever the character of the

shareholding, its influence is neutralized in the constitution of the board of directors and in the actual credit decision taken at different levels of bank management."[1]

Necessary administrative and legal steps were taken in pursuance of these objectives.[2] The scheme of social control was designed to achieve a re-orientation in the outlook of the banking system. However, several basic questions remained to be examined before reforms were introduced in the system. Rapid changes in the political and social attitudes had thrown up a host of questions : What does the future hold for the banking system in India ? In what way and how far is it possible to extend its geographical and functional coverage ? How will it influence and help economic development ? How will it itself be affected in the process of economic development and by new technology such as computers ? How will the banking structure evolve ? How will the different types of credit and banking institutions—commercial and co-operative banks, indigenous bankers and non-banking financial intermediaries — be integrated into the texture of the banking system ? Will there be a significant change in the source of 'bank funds', in the composition of bank assets and in banking services ? How to improve and modernise the operating methods and procedures and management policies so as to improve efficiency and/or reduce costs ? The process of banking development itself created certain problems. For instancc, a rapid branch expansion programme of commercial banks brought in sharp focus the problems of personnel and management for creating a cadre of suitable personnel for the socially oriented banking system of the future. Above all, there was the question of how to mobilisc maximum resources through the banking system for the benefit of the economy. While discussing this aspect, the then Deputy Prime Minister and Minister of Finance in his statement on social control of banks said in the Parliament :

"Perhaps, the long-term objective should be the development of the banking system on the lines of regional banks which would be not only in a better position to mobilize deposits in rural and semi-urban areas but will also be in a better position to assess and meet the needs of the small entrepreneurs and the agriculturists in these areas. Such a development cannot, however, take place in the short-term and the advantages and disadvantages of a change in the structure of the banking system have to be carefully weighed. There are other areas which require attention. The operational efficiency of the banking system has to be improved and their working modernized. I propose to set up a Commission to have a close look at these and other related matters which affect the development of banking industry on right lines."

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1 Statement of the then Deputy Prime Minister and Minister of Finance, on Social Control of Banks made in the Parliament on December 14, 1967.

2 See Chapter 2 for details.

Appointment of the Commission

1.4 Accordingly, the Government of India set up the Banking Commission by a resolution issued on February 3, 1969.[1] Its composition was as follows :—

R. G. Saraiya	*Chairman*
N. Ramanand Rao	*Member*
Bhabatosh Datta	*Member*
V. G. Pendharkar	*Member-Secretary*

Terms of Reference

1.5 The terms of reference of the Commission were as follows:—

(i) To enquire into the existing structure of the commercial banking system having particular regard to size, dispersion and area of operation and to make recommendations for improving the structure ;

(ii) To make recommendations for extending the geographical and functional coverage of the commercial banking system ;

(iii) To make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks ;

(iv) To examine the cost and capital structure and to review the adequacy of available surplus and reserves, having regard to the developmental needs of the banking system and to make recommendations in the light of the findings ;

(v) To review the existing arrangements relating to recruitment, training and other relevant matters connected with manpower planning of bank personnel and to make recommendations for building up requisite professional cadre of bank personnel at all levels of management ;

(vi) To review the working of co-operative banks and to make recommendations with a view to ensuring a co-ordinated development of commercial and co-operative banks, having regard, in particular, to (ii) above ;

(vii) To review the role of various classes of non-banking financial intermediaries, to enquire into their structure and methods of operation and recommend measures for their orderly growth ;

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1 See Appendix I.

(viii) To review the working of the various classes of indigenous banking agencies such as multanis and shroffs, evaluate their utility in the money market complex and to make recommendations in the light of the findings ;

(ix) To review the existing legislative enactments relating to commercial and co-operative banking ;

(x) To make recommendations on any other related subject matter as the Commission may consider germane to the subject of enquiry or on any related matter which may be specifically referred to the Commission by the Government.

1.6 The Commission was inaugurated by the then Deputy Prime Minister and Minister of Finance, Shri Morarji Desai, on March 7, 1969 in Delhi.[1] On July 19, 1969, *i.e.*, a few months after the Commission had started its work, 14 major commercial banks were nationalised with the objective of controlling the commanding heights of the economy and "to meet progressively, and serve better the needs of development of the economy in conformity with the national policy and objectives."[2] Nationalisation of major commercial banks was a major development but it did not change the basic nature of questions which the Commission was examining. The terms of reference of the Commission were not changed after nationalisation since they were deemed to include the 14 nationalised banks as well. As the Prime Minister in her broadcast announcing nationalisation said:—

"Some time ago we had adopted social control over banks. What is sought to be achieved through the present decision to nationalise the major banks is to accelerate the achievements of our objectives. The purpose of expanding bank credit to priority areas which have hitherto been somewhat neglected as also (1) the removal of control by a few, (2) provision of adequate credit for agriculture and small industry and exports, (3) the giving of a professional bent to bank management, (4) the encouragement of new classes of entrepreneurs and (5) the provision of adequate training as well as reasonable terms of service for bank staff still remain and will call for continuous efforts over a long time. Nationalisation is necessary for the speedy achievement of these objectives, but the measure by itself will not achieve these objectives.

In due course, structural and other changes may become necessary. These will be made in an orderly fashion and after broad-based consultations and the most detailed expert examination. Most of you are perhaps aware that the Banking Commission is examining this very problem of defining a structure for the banking system which would be more appropriate to the needs of the economy."[3]

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1 Inaugural remarks of the then Deputy Prime Minister are given in Appendix II.
2 Preamble to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.
3 Prime Minister's broadcast made on July 19, 1969 announcing bank nationalisation.

While the basic nature of questions before the Commission remained unchanged, nationalisation of major commercial banks made it necessary to examine some problems expeditiously. Also, in the wake of nationalisation of banks, the atmosphere became surcharged with accentuated expectations from the banking system. The Government, the Reserve Bank, the National Institute of Bank Management and the Ad hoc Committee of Bankers appointed a number of Study Groups and Working Groups to examine some of the immediate operational problems. The findings and recommendations of these Groups were taken into account by the Commission in making its own recommendations.

Approach of the Banking Commission

1.7 In its enquiry the basic objective before the Commission was to take a close look at the banking system in India with a view to making recommendations for improving its services to the country and make it a more efficient instrument of economic and social development. This required taking a total view of the banking system comprising the banking and para-banking institutions, *viz.*, commercial and co-operative banks, indigenous bankers and non-banking financial intermediaries. Since the appearance of the Report of the Indian Central Banking Enquiry Committee in 1931, specific regional and functional aspects of the banking system have been examined from time to time by expert bodies such as the Co-operative Planning Committee (1945), the Rural Banking Enquiry Committee (1950), the Committee of Direction of the All-India Rural Credit Survey (1951-52), the Travancore-Cochin Banking Inquiry Commission (1956), and more recently the All-India Rural Credit Review Committee (1969). The following Study Groups appointed by the National Credit Council also submitted their reports in 1969 :—

(1) Organisational Framework for the Implementation of Social Objectives.

(2) Study Group on the Extent to which Credit Needs of Industry and Trade are Likely to be Inflated and How Such Trends Could be Checked.

(3) Study Group on the Provision of Credit Facilities for Road Transport Operators.

(4) Study Group on Deposit Mobilisation by Commercial and Co-operative Banks.

(5) Study Group on Area/Project Approach in Implementing Schemes for Extending Commercial Bank Credit to Agriculture (including Commercially Viable Projects in the Rural Electrification and Minor Irrigation Fields).

Some other reports of expert bodies, *e.g.*, the Report of the Working Group of Training and Development of Higher Bank Personnel (1969), the Report of the Committee for Examining the Establishment of an Institution to Run Foreign Branches of Public Sector Banks and Allied Matters (1970), the Report of the Expert Group on Enactments Having a Bearing on Commercial Banks Lending to Agriculture (1971) also covered special aspects of the banking system.

1.8 The Banking Commission has examined the entire banking system and its constituent parts with a view to seeing what changes would be required to make it a more efficient instrument for mobilising the savings of the community and promoting a smooth flow of credit to various sectors in accordance with the needs of the economy. In making its recommendations about various aspects of the banking system, the Commission, while taking note of the present conditions and policies has made an attempt to look ahead at the problems which are likely to emerge in the next 10-15 years. In approaching the problem, the Commission has kept in mind the fact that a uniform solution cannot be applied to all problems in the country with its vast size and varying conditions. The solutions will have to be attuned to the characteristics of various areas and sectors of the economy and the nature of problems.

1.9 The terms of reference of the Commission though quite comprehensive did not cover certain aspects of the working of the system. Thus, they did not include functions and the working of the Reserve Bank as well as industrial relations in the banking industry. Also, the Commission did not examine the working of statutory bodies in the financial system like the Unit Trust of India and the Life Insurance Corporation of India and insurance companies because their operations are under constant review by authorities. However, the operations of these institutions were taken into account to the extent that they were relevant to the enquiry of the Commission.

Method of Work

1.10 Various methods were used by the Commission in the course of its enquiry. The Chairman of the Commission addressed letters to former Ministers of Finance, retired central and commercial bankers, distinguished economists, experts, institutions like the Export Credit and Guarantee Corporation, Chambers of Commerce and Industry, State Trading Corporation, etc., requesting them to give the Commission the benefit of their views on the various matters mentioned in the terms of reference. The Commission issued questionnaires, appointed Study Groups, assigned projects to institutions/individuals, had field studies undertaken, held discussions and made its own research.

Issue of Questionnaires

1.11 Questionnaires were issued to commercial and co-operative banks, State Governments and certain classes of borrowers. The questionnaire to the commercial banks was issued in three instalments in May, July and November 1969. A questionnaire was also issued to the State Governments about co-operative banks in August 1969. A questionnaire to all apex co-operative banks and a sample of central, industrial and urban co-operative banks[1] was issued in two instalments in September and November 1969, respectively. A separate questionnaire was issued to co-operative training institutions and agricultural universities in January 1970. A questionnaire to a sample of about 4,000 large and medium scale borrowers, exporters, etc., was issued in October 1969. The number of institutions/persons to whom questionnaires were issued and the list of those who sent their answers is given in Appendix VIII. The Special Cell in the Reserve Bank for the Banking Commission analysed the major part of the answers to these questionnaires. The National Institute of Bank Management and the Vaikunth Mehta National Institute of Co-operative Management also assisted in the analysis of some of the replies.

Study Groups

1.12 There were certain fields of enquiry which required studies in depth by groups of experts in the respective fields. Accordingly, the following five Study Groups[2] were set up by the Commission.

Name of the Study Group	Chairman	Date of setting up of the Group	Date of submission of the Report
1. Study Group on Banking Costs.	Rameshwar Thakur	August 22, 1969	December 2, 1971
2. Study Group to Review Legislation Affecting Banking.	P. V. Rajamannar	October 30, 1969	First Report, on August 29, 1971*
3. Study Group on Indigenous Bankers.	H. T. Parekh	November 24, 1969	May 29, 1971
4; Study Group on Bank Procedures.	D. R. Joshi	February 14, 1970	July 24, 1971
5. Study Group on Non-Banking Financial Intermediaries.	Bhabatosh Datta	June 4, 1970	August 10, 1971

* As regards the position of work relating to the remaining parts of the Report of the Study Group, see Chapter 21, Paragraph 21·2.

1 The rationale of selection of the sample is explained in Chapter 8.
2 See Appendix III for the composition and terms of reference of the Study Groups.

The Banking Commission held discussions with the Chairmen and Members of the Study Groups on the reports submitted by them.

Field Studies and Other Projects

1.13 There were certain areas of enquiry which required field studies and preparation of special studies. While information relating to the problems of large and medium borrowers was obtained through the mail questionnaire method, the same method could not be applied to the small borrowers and agriculturists. Hence, it was decided to obtain the relevant information through surveys. The Commission entrusted surveys of small scale industries and small artisans to well known research scholars in universities and research institutions in 21 centres chosen from all over the country. The surveys covered about 4,000 small industrial units and more than 1,000 small artisans in different centres. Data were processed in the Commission and sent back to the centres for analysis and preparation of reports.

1.14 The Vaikunth Mehta National Institute of Co-operative Management, Poona, conducted 8 studies on different aspects relating to co-operative and commercial banks. The Division of Rural Surveys of the Economic Department, Reserve Bank, prepared a field study of banking facilities in 12 districts. Similar reports were received from the State Bank of India in respect of two districts. D. R. Oza, Principal of the Co-operative Training Institution, Vallabh Vidyanagar, prepared a report on 'Development of Banking Facilities in Jamnagar District'. A report on 'Credit Facilities and Deposit Mobilisation in Guntur District' along with the report on 'Socio-Economic Survey of Guntur District' was prepared by G. Parthasarathy, Head of the Department of Co-operation and Applied Economics of Andhra University, Waltair.

1.15 Another area which required field study was to appraise the services rendered by banks to depositors. The National Council of Applied Economic Research, New Delhi, conducted a survey on 'Depositors' Appraisal of Banking Services' and 'Agent/Manager's Appraisal of Banking Services' covering 500 offices and 5,000 depositors from all over the country. A. M. Khusro and N. S. Siddharthan of the Institute of Economic Growth, Delhi, conducted a study on 'An Econometric Model of Banking in India.' A study on 'Economies of Scale in Banking' was prepared by C. Rangarajan of the Indian Institute of Management, Ahmedabad, and Paul Mampilly of the National Institute of Bank Management. A study on 'Use of Inventory Control Technique for Cash Management in Banks' was prepared by Kumari K. S. Pant of the Jamnalal Bajaj Institute of Management, Bombay. M. Y. Khan of Delhi University prepared a study on the 'Structure and Growth of Investment Companies in India, 1956-57 to 1968-69' for the Study Group on Non-Banking Financial Intermediaries. A list of all these projects is given in Appendix IV.

Discussions of the Commission

1.16 The Chairman of the Commission had discussions with the Prime Minister in New Delhi on September 29, 1969. The Commission met the Union Minister of Finance, Secretaries of the Department of Banking and Department of Economic Affairs of the Ministry of Finance, Governor and the Deputy Governors of the Reserve Bank as well as the Directors nominated by the Government and the Reserve Bank on the boards of directors of the 14 nationalised banks. The Commission visited all States and important centres in the country and held discussions with the Governors, Chief Ministers and other Ministers and officials of the State Governments, commercial banks, co-operative banks, Chambers of Commerce and Industry and other bodies. In addition the Commission held discussions with a number of other bodies and experts. Lists of places visited by the Commission and of persons with whom discussions were held are given in Appendices V and VI. The Commission also received notes and memoranda from a number of associations and experts.[1]

SCHEDULE OF WORK OF THE COMMISSION

1.17 The first meeting of the Commission was held in New Delhi on March 8, 1969. Besides the meetings which were held for discussions with different bodies and individuals in Bombay and elsewhere, the Commission held 24 sessions in Bombay before finalising its Report.

1.18 The Commission was expected originally to submit its Report by the end of December 1970. However, the scope of the studies undertaken by and on behalf of the Commission was such that this date could not be adhered to. Some of the reports of the Study Groups and surveys were received quite late. For instance, the reports of the surveys of small scale industries and small artisans from two centres were received as late as the second week of January 1972. Also, the Commission had to postpone its programme of visiting certain States due to the General Elections in 1970. Hence at the request of the Commission, the Government extended the date for the submission of the Report first upto June 1971 and then upto January 1972.

CHAPTER DESIGN

1.19 The Report of the Commission is divided into 24 chapters. The sequence of chapters does not follow the same order as the terms of reference. The chapters are so designed that the developments in the banking system are presented as background material for the analysis and recommendations of the Commission on the various aspects of the system included in its terms of reference.

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1 See Appendix VII for the list.

1.20 Chapter 2 on *Banking in India : A Review* traces the major developments in Indian banking particularly since the inception of planned development in 1950-51. Chapter 3 on *Existing Structure of the Banking System* describes different aspects of the present structure of the various constituents of the banking system. It also presents a comparative picture of commercial and co-operative banks. The question of restructuring the system is discussed in a later chapter. Chapter 4 on *A Review of Services Provided by Commercial Banks in India* gives details of various services offered by commercial banks in India to the public. Chapters 2 to 4 are the backdrop against which the analysis and views of the Commission are presented in later chapters.

1.21 In Chapter 5 on *Improving the Geographical Coverage of Commercial Banks* the trends in branch expansion programmes of commercial banks, branch licensing policy of the Reserve Bank of India and other related matters as well as the Lead Bank Scheme are discussed. This is followed by two chapters on Functional Coverage. In accordance with the two major functions of banks (*viz*., mobilisation of savings and channelling them into various sectors of the economy), these two chapters discuss *Functional Coverage I : Deposit Mobilisation by Banks* (Chapter 6) and *Functional Coverage II : Advances with Particular Reference to Financing of Priority Sectors : Small Artisans and Small Scale Industries* (Chapter 7). In its analysis and recommendations, the Commission has taken into account the needs of all the productive and distributive sectors of the economy and made recommendations with a view to assisting all the sectors. The difficulties experienced by large and medium borrowers are mainly of two types. The first relates to costs, time-consuming procedures of banks, delays in sanctioning or renewal of limits and the quality of services ; the second relates to matters connected with the quantum of credit made available to them. Most of the problems in the first category are discussed in Chapters 11 and 12. Examination of the second category of problems is outside the terms of reference of the Commission. For these reasons and also because the small borrowers have some special difficulties, the emphasis of discussion in Chapter 7 is on an examination of credit problems of small borrowers, taking as case studies the problems of small artisans and small scale industries, as they emerge from the available material and analysis of results of surveys conducted on behalf of the Commission in 21 centres. Thus, Chapters 5, 6 and 7 generally cover the term of reference (ii) — "To make recommendations for extending the geographical and functional coverage of the commercial banking system"—with the exception of problems of credit for agriculture which are discussed later.

1.22 The relevant term of reference relating to the co-operative system of credit was No. (vi)— "To review the working of co-operative banks and to make recommendations with a view to ensuring a co-ordinated development of commercial and co-operative banks, having regard, in particular, to (ii) above." A review of the working and development of co-operative credit institutions is included in Chapters 2, 3, 6 and 7. Matters relating to

co-ordination between commercial and co-operative banks in regard to the credit needs of the rural sector are discussed in Chapters 8, 9 and 10. The issues involved in co-ordination between commercial and co-operative banks can be divided into three categories, *viz.*, co-ordination between them in extending their geographical coverage, evolving policies and procedures of lending which will meet the credit requirements of borrowers in the rural areas and increasing the total resources of the banking system. These aspects are dealt with, respectively, in Chapter 8 on *Co-ordination between Commercial and Co-operative Banks I: Geographical Coverage at the Primary Level*, Chapter 9 on *Co-ordination between Commercial and Co-operative Banks II: Loan Policies and Procedures* and Chapter 10 on *Co-ordination between Commercial and Co-operative Banks III: Resources and Certain Organisational Aspects of Co-operative Banks.*

1.23 Chapter 11 on *Bank Operating Methods and Procedures* is based on the Report of the Study Group on Bank Procedures and contains recommendations to improve the methods and procedures of working of commercial banks. This chapter generally covers the term of reference (iii) — "To make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks."

1.24 The Study Group on Banking Costs examined the questions relating to the term of reference (iv) — "To examine the cost and capital structure and to review the adequacy of available surplus and reserves, having regard to the developmental needs of the banking system and to make recommendations in the light of the findings." The recommendations made by this Study Group can be divided into two categories: (*a*) those which are concerned with the cost structure, adequacy of available surplus and reserves and generally to the profitability of banks and (*b*) those concerned with evolving a system of periodical assessment of trends in banking costs as part of developing an appropriate information system. These two aspects are discussed respectively in Chapter 12 on *Cost and Capital Structure of Banks* and in Chapter 13 on *Information System for Banks.* Chapter 14 on *Management Development in Banks* deals with the term of reference (v) — "To review the existing arrangements relating to recruitment, training and other relevant matters connected with manpower planning of bank personnel and to make recommendations for building up requisite professional cadre of bank personnel at all levels of management."

1.25 These chapters which cover relevant aspects of the commercial and co-operative banking system are followed by the recommendations of the Commission in Chapter 15 on *Restructuring of the Banking System.* The recommendations relate mainly to the restructuring of the public sector[1] of the banking system. This chapter along with Chapter 3 covers the term of re-

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1 The terms 'public sector banks' and 'national banks' have been used in the Report interchangeably to refer to the State Bank of India, its 7 subsidiaries and the 14 nationalised banks.

ference (*i*)—"To enquire into the existing structure of the commercial banking system having particular regard to size, dispersion and area of operation and to make recommendations for improving the structure."

1.26 A discussion of the future structure of the banking system would not be complete without examination of the need for specialised financial institutions such as merchant banking institutions and acceptance and discount houses, export-import bank, specialised financial institutions for small scale industries and small business units, specialised institutions for consumer credit, specialised savings banks and specialised institutions for housing finance. This question is discussed in Chapter 16 on *The Need for Specialised Financial Institutions*. Chapter 17 on *Non-Banking Financial Intermediaries* discusses the working and role of non-banking financial intermediaries like hire-purchase, finance institutions, unit and investment trusts in the private sector, chit funds, loan and finance companies and nidhis and covers the term of reference (*vii*)—"To review the role of various classes of non-banking financial intermediaries, to enquire into their structure and methods of operation and recommend measures for their orderly growth." Chapters 16 and 17 are based on the Report of the Study Group on Non-Banking Financial Intermediaries.

1.27 The working of the various classes of indigenous banking agencies forms the subject matter of Chapter 18 on *Indigenous Bankers* and covers the term of reference (*viii*)—"To review the working of the various classes of indigenous banking agencies such as multanis and shroffs, evaluate their utility in the money market complex and to make recommendations in the light of the findings." This chapter is based on the Report of the Study Group on Indigenous Bankers.

1.28 Chapter 19 on *Banking Regulation*, Chapter 20 on *National Banks* and Chapter 21 on *Other Laws Affecting Banking* discuss the legal aspects of the recommendations made by the Commission. These chapters which cover the term of reference (*ix*) — "To review the existing legislative enactments relating to commercial and co-operative banking"—are based on the Report on Banking Legislation of the Study Group to Review Legislation Affecting Banking.

1.29 The Commission was also asked "to make recommendations on any other related subject matter as the Commission may consider germane to the subject of enquiry or on any related matter which may be specifically referred to the Commission by the Government" [term of reference (*x*)]. In the view of the Commission, one field which is vital to the development of the banking industry and which has been somewhat neglected in India so far is research and education. This is discussed in Chapter 22 on *Banking Research and Education*.

1.30 Chapter 23 on *Concluding Observations* rounds off the discussion by pointing out the perspective in which the recommendations of the Commission should be examined and emphasising the pre-conditions for successful working of the banking system. The Commission did not attempt to summarise the analysis and arguments contained in the Report because it was felt that such a summary may distort emphasis. However, a *Summary of Major Recommendations* was prepared which forms the subject matter of Chapter 24.

1.31 The volume of technical studies contains the various studies and reports on projects undertaken by or on behalf of the Commission. This volume and the Reports of the Study Groups appointed by the Commission are published separately.

ACKNOWLEDGEMENTS

1.32 The Commission would like to thank the Reserve Bank of India for extending different kinds of assistance in the work of the Commission, in particular for making available the services of the Member-Secretary and officers and staff of the Special Cell drawn from different departments of the Reserve Bank. It was the sustained work of the members of the Special Cell in the analysis of replies, research into various special subjects and preparation of background notes and of preliminary drafts of the chapters of the Report, etc., that led to the systematic formulation of views by the Commission. Particular mention may be made of the able efforts of V. M. Paranjpe, Officer-in-Charge, K. B. Chore, Deputy Chief Officer, A. Hasib, Director, B. Venkata Rao, Deputy Chief Officer, Kumari C. J. Batliwala, Deputy Director, R. Krishnan, Assistant Legal Adviser, A. Vasudevan, M. Saravane and Kumari I. K. Khadye, Research Officers, S. D. Barde and S. R. Kadlay, Rural Credit Officers, B. K. Aggarwal, Banking Officer, Ch. Sreerama Murthy, Legal Officer, T. L. Ramaswamy, A. M. Dalvi, Shrimati N. B. Gupte, S. V. Gorakshakar, V. V. Nachane, V. S. Vartak and V. G. Dindorkar, Staff Officers, and supporting research, administrative and stenographic staff, a list of whom appears in Appendix X.

1.33 Besides establishing the Special Cell, the Reserve Bank made available to the Commission premises, furniture, stationery, transport, etc., thus considerably facilitating the smooth completion of the work. Particular thanks are due to the Heads or Advisers of the following Departments of the Reserve Bank and their staff: Department of Administration & Personnel; Department of Accounts & Expenditure; Economic Department—in particular Divisions of Banking and Rural Surveys; Department of Statistics; Department of Banking Operations & Development; Agricultural Credit Department; Legal Department; Industrial Finance Department; Department of Non-Banking Companies and Secretary's Department in particular the Credit Planning Cell and the Premises Department. The Bankers' Training College and the Industrial Development Bank of India also have to be thanked for their help.

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1.38 Several officers of the Reserve Bank, the State Bank of India and other commercial and co-operative banks were of great assistance to the Commission on its tours. The Commission would like to thank in particular those officers who acted as liaison with State Governments and other bodies on its tours, a list of whom is given in Appendix IX.

1.39 B. N. Iyer performed his duties very ably as Private Secretary to the Chairman and also rendered valuable assistance to the Commission in the course of its tours and discussions. The Commission also wishes to thank A. V. Balakrishnan for all matters relating to the Commission's accounts. We owe special thanks to the Deputy Secretary, R. Rajamani,

who not only arranged meetings, tours, etc., of the Commission and handled all administrative matters concerning the Commission's business with the Government of India but also assisted the various Study Groups appointed by the Commission and contributed effectively to the work of the Commission by making valuable suggestions.

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1.41 The Chairman and the other Members of the Banking Commission would like to pay a special tribute to their colleague and Member-Secretary, Shri V. G. Pendharkar, who has worked indefatigably for the Commission and brought to bear his vast knowledge of Economics, Statistics and Econometrics, as well as his experience of organisation of research to the work of the Commission. Besides, his assistance was always available to the various Study Groups set up by the Commission. The research schemes and investigations undertaken on behalf of the Commission by the various bodies owe a good deal to his initiative and guidance.

CHAPTER 2

BANKING IN INDIA: A REVIEW

INTRODUCTORY

2.1 The Indian Central Banking Enquiry Committee had made, in 1931, an extensive survey of the problems of banking in India. Prior to that, various currency committees and commissions, such as the Chamberlain Commission[1] of 1914 and the Hilton Young Commission[2] of 1926, had reported on the currency and banking structure of the country. More recently the 'History of the Reserve Bank of India'[3] has dealt with the developments in the nineteen thirties and forties in an extensive manner. For the trends in Indian banking since then, the available material is of two types. First, there are the various annual reports of the Reserve Bank and the articles and the statistical series published by it in its monthly Bulletin. Second, a number of expert committees have examined from time to time the problems of meeting credit requirements of particular sectors. The reports of these committees contain extensive material on such problems.

2.2 During the period following the Second World War, a number of important developments in Indian banking have taken place. The banking structure, with the problems of which this Report is concerned, is very much stronger and considerably more sophisticated as compared to what it was at the end of the War. For a proper understanding of the current problems of Indian banking, it is necessary to have a broad view of the developments, especially those that have taken place in the last two decades, *i.e.*, since the beginning of planned economic development.[4] An attempt has been made in this chapter to provide such a view.

2.3 It will be useful at the outset to highlight the factors that have conditioned the development in banking during this period. The commencement of the process of planned economic development in 1950-51, meant that the Indian economy had to achieve certain pre-determined targets in terms of the rate of growth of national income. In turn, this required stepping

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1 *Final Report of the Commissioners, Royal Commission on Indian Finance and Currency*, HMSO, 1914.
2 *Report of the Royal Commission on Indian Currency and Finance*, Vol. I, HMSO, 1926.
3 *History of the Reserve Bank of India —(1935-51)*, Reserve Bank of India, 1970.
4 We have, however, given in Statements in Appendix XI the salient features of available statistical data relating to banks for an earlier period for purposes of reference.

up the rate of savings, effective mobilisation of savings and investing them in an appropriate manner in the various sectors of the economy. As the structure of financial institutions which existed then was not adequate from the point of view of mobilising savings and channelling them in the desired manner to the various sectors, one of the major tasks before the country was to develop this structure. This required (*i*) strengthening the structure through various measures, and (*ii*) establishment of new institutions either to work in special fields or to afford some measure of protection to the existing units in the structure. The object of the present Report is to make recommendations as to how this process should be carried still further. The Report attempts to cover a much wider range of problems and also a much wider range of financial institutions than has been done since the labours of the Indian Central Banking Enquiry Committee.

2.4 Along with the problem of developing the structure of financial institutions, there was also the equally urgent problem of financial policy particularly the monetary and credit policy to facilitate achievement of the targets. As the planning process gathered momentum, the environment in which banking institutions had to work underwent significant changes. The sector of large and medium scale industry experienced a sustained and strong upsurge till the recession of 1966 and 1967. Its demands for credit not only increased in volume but it needed different types of credit. The needs of the public sector for bank credit also increased considerably especially when, with the adoption of the objectives of creating a socialistic pattern of society, the public sector entered the field of industry in a big way.

2.5 While the industrial sector of the economy was undergoing rapid development and incomes were being generated as a result of the programmes of investment in industry and infrastructure, agriculture continued to lag behind for a variety of reasons giving rise to shortages of basic wage goods either directly as in the case of foodgrains or indirectly because of shortages of raw materials like raw cotton, raw jute, oil seeds, etc., based on agriculture which were required for manufacturing articles of essential consumption or for exports. The resultant inflationary pressures stepped up further the demand for bank credit. This necessitated an increasingly active monetary and credit policy.

Salient Features of Monetary and Credit Policy

2.6 The major objectives of monetary and credit policy during this period were the following :—

(*a*) to contain inflationary pressures without affecting production ;

(*b*) to discourage the hoarding of particular strategic commodities in short supply ;

(*c*) to encourage the flow of credit to certain desired channels ; and

(*d*) to introduce measures for strengthening the banking system and creating institutions for filling credit gaps.

Relevant Consideration in the Choice of Monetary Policy Instruments

Seasonality in the Money Market

2.7 The Reserve Bank of India is empowered, under its statute, to use the usual instruments of monetary policy such as the Bank Rate, open market operations, variable reserve ratios, selective credit controls and so on. The choice of the instruments of monetary control that can be used is limited, however, by the structural characteristics of the money market. An important aspect of the money market in India is the seasonality of demand for money and credit which broadly follows the course of the agricultural seasons. The busy season which extends roughly from the end of October to end of April requires finance for the post-harvest movement of agricultural commodities from the producers to final consumers, for meeting the needs of seasonal industries like sugar and to some extent coal and for meeting the generally higher tempo of economic activity in the post-monsoon period. The incidence of the closing of accounts of the Government at the end of the financial year in March also adds to the element of seasonality in the money market. From the end of April these pressures begin to subside and till the end of October the banking system experiences a lean period for the demand for money and credit.

2.8 Until now, commercial banks in India have not been financing agricultural operations to any significant extent; however, they have been providing the major part of the finance for the trade in agricultural commodities. Also, their role in the financing of agro-based industries like cotton, sugar and jute is significant. Hence, there is a pressure on the resources of banks during the busy season, which is eased to some extent during the slack season because of the return flow of funds. Although, as we shall see later, the importance of commercial bank advances to the industrial sector has been increasing over the years, this has not eliminated the seasonal character of the monetary and credit situation in India. The increasing importance of advances to industries like iron and steel and engineering has, however, affected the amplitude of variations between the busy and the slack seasons. The implication of this phenomenon for the banking system is that during the busy season banks are obliged to have recourse to borrowing from the Reserve Bank, while the level of such borrowings declines during the slack season. This provides a useful lever to the Reserve Bank in controlling the credit situation.

Narrowness of the Securities Market

2.9 Another aspect of the money market structure in India is the narrowness of the market for Government and semi-Government securities. This means that there is little scope for using open market operations in Government securities for controlling credit. The Reserve Bank's operations in this sphere have, therefore, been directed mainly at ensuring orderly conditions in the Government securities market in order that there is a reasonable allocation of the available resources as between the Central Government, the State Governments and the various other borrowers in the public sector on the one hand, and as between the Government sector and the rest of the economy on the other.

The Bill Market Scheme

2.10 Rediscounting bills is one of the most important instruments of credit control and the Indian Central Banking Enquiry Committee had recommended early establishment of a market in commercial bills. No steps could be taken by the Reserve Bank in this direction until the beginning of 1952 because of the war and the difficulties arising out of the partition of the country. During the war, commercial banks had acquired a substantial portfolio of Government debt and for some time thereafter they resorted to liquidating this portfolio in order to meet the growing demands on them for credit by the industrial and commercial sectors of the economy. These operations were facilitated by the policy of pegging the yield on Government securities which the Reserve Bank followed at that time. This policy, which resulted in the monetisation of Government debt, was discontinued on account of the inflationary pressures it gave rise to. This meant that banks could no longer obtain the resources needed by them to finance the business sectors of the economy by shifting their portfolio of Government securities on to the Reserve Bank. It also meant that a solution had to be found to the problem of meeting the seasonal pressures on the liquidity of the banking system.

2.11 It was in this context that on January 16, 1952, the Reserve Bank introduced its first Bill Market Scheme. Under the scheme, the Reserve Bank made advances to scheduled banks in the form of demand loans against their promissory notes supported by 90 days usance bills or promissory notes of their constituents. Scheduled banks were permitted for this purpose, to convert a part of their advances—loans, cash credits or overdrafts—into usance promissory notes for 90 days for lodging as collateral for advances from the Reserve Bank. It was primarily a scheme of accommodation for banks. It attempted a solution to a pressing problem in the context of the widely prevalent cash credit system and the legal framework which determined the manner in which temporary finance could be made available by the Reserve Bank to banks. The scheme did not, however, develop a market in genuine bills.

2.12 Recently, in November 1970, the Reserve Bank introduced a new bill market scheme with the object of developing a genuine bill market in India. This scheme envisages the rediscounting by the Reserve Bank, of genuine trade bills, *i.e.*, bills which evidence sale and/or despatch of goods. Introduction of this scheme was considered necessary because of the problems the cash credit system gave rise to from the point of view of credit control. Under the cash credit system, credit limits of borrowers are fixed and within these limits the borrower is entitled to draw his requirements of finance against the pledge or hypothecation of raw materials, goods in process, finished goods stores and receivables. There is an inherent risk in this system that excessive limits in relation to a specified purpose might be sanctioned to large borrowers who have adequate security to offer and that such excess credit could be used by them for holding unduly large inventory and to build up inter-company investments. In effect the cash credit advances are not repaid on any fixed date, but continue to be renewed from time to time. The new bill market scheme is still in its initial stages.

Existence of the Unorganised Money Market

2.13 At around the time the Reserve Bank was established, the unorganised money market was the most important money market accounting for, according to one estimate, as much as 90 per cent of the transactions. Since then its importance in overall terms has fallen considerably. But for certain sectors like agriculture, retail trade, various classes of small borrowers and also to an extent small scale industry, this market continues to remain an important source of finance. Its chief advantages are flexibility in operation and ease of access for the borrower. But these advantages are more than offset by the highly onerous terms on which it makes its resources available to the borrowers. It has, therefore, been one of the most important objectives of policy to devise methods to facilitate the flow of credit to these sectors from the organised sector and to provide it on reasonable terms.

Technique of Credit Control

2.14 The technique of credit control in India for control in the short-term money market is based on regulating the amount of temporary accommodation provided to the banks mainly during the busy season, and its cost and on controlling the use of bank credit for holding inventories of essential commodities. The long-term control measures are aimed at bringing about the desired directional changes in credit flows and in the cost of credit to the different sectors. For short-term control, at present, the access of commercial banks to the Reserve Bank is regulated by the Net Liquidity Ratio (NLR) System. The NLR of each bank is the ratio to its aggregate demand and time liabilities, of its net liquid assets which comprise cash, balances with the Reserve Bank and the balances with other banks in the current account and all investments in approved securities *minus* its total borrowings

from the Reserve Bank, the State Bank of India and the Industrial Development Bank of India. The minimum level of NLR is fixed by the Reserve Bank. As a bank's borrowing from the Reserve Bank increases and the ratio falls, the cost of the borrowing from the Reserve Bank is correspondingly increased. The system has the advantage that not only is the cost of credit regulated thereby but also that it can be selective. Advances to certain priority sectors are exempted from the calculation of the NLR. The Reserve Bank also regulates interest rates by fixing the minimum/maximum deposit and lending rates for different categories of commercial banks.

2.15 Selective credit controls have been used by the Reserve Bank since 1956 in the case of advances against those commodities which are in short supply and have a significant weightage in determining the price level or are important for particular industries. The major object of these controls is to deal with the problems of speculative inventory build up in sensitive sectors. These controls are operated through either or both of the techniques of (*i*) raising the levels of the minimum margins that banks must maintain on advances against the security of such commodities and (*ii*) fixing the ceiling on certain types of advances in the light of the prevailing supply and price situation of the commodities. In some cases, the minimum level of interest rates which banks should charge is also specified. The technique also incorporates devices which enable taking into account the differences in the demand and supply conditions in the different regions of the country.

Encouraging Credit Flows into Desired Channels

2.16 As pointed out earlier, at the beginning of the period under review a substantial sector of the economy had to rely on the unorganised money market for meeting its requirements of credit and it has been one of the most important objectives of policy to encourage the flow of credit from the organised money market to this sector which comprises agriculture, small scale industries and other small borrowers. Also, as the tempo of economic development accelerated the country ran into serious balance of payments difficulties necessitating export promotion measures on a wide front. A brief account of the steps taken towards achieving this objective is given in the following paragraphs.

Credit to Agriculture

2.17 Though agriculture has always been the most important sector in the country's economy, it received very little credit from commercial and co-operative banks. Commercial banks being urban-oriented, catered primarily to the needs of commercial and industrial sectors. They did not have many branches in the rural areas nor were their staff, rules and procedures adapted to the requirements of agricultural credit. The nature of agricul-

tural operations, which in India depended mostly on the vagaries of weather, was another factor discouraging commercial banks from entering the field of agricultural credit. Also, the agriculturist-borrowers could usually offer only land as security, which was not generally acceptable to banks because of legal and other complications. Moreover, until recently, the official policy was to keep institutional agricultural credit as a preserve of the co-operative credit agencies. The various expert committees, which examined the problems of this sector during the period immediately following the Second World War, concluded that the responsibility for providing credit to agriculture should be that of the co-operatives and suggested how the co-operatives should be strengthened for that purpose. But it was not until the Committee of Direction of the All-India Rural Credit Survey conducted its investigation into the rural credit situation in 1951-52 that a proper idea of the magnitude of the problem of agricultural credit was obtained. The Survey revealed that the co-operative credit institutions played an almost insignificant role in providing credit to the agriculturists. In 1951-52, only 3.1 per cent of the total credit needs of the cultivators were met by them. Governmental agencies supplied an equal proportion and the rest of the needs were met by professional and agriculturist money lenders. While the primary co-operative credit institutions which numbered 1.08 lakhs were well spread out, they generally lacked financial strength and organisational capacity. Many of them had low membership and business, and were either running at loss, or barely existed. The total loans advanced by the societies amounted to Rs. 24 crores, a major part of which was accounted for by two States, namely, Bombay and Madras. On the whole, the structure at the primary level suffered from lack of direction even as it lacked adequate financial and organisational support from above.

2.18 As for central co-operative banks, which numbered 509 in 1951-52, while those in Bombay and Madras were ahead of others, there were many which had only a small area of operations, *i.e.*, part of a district. Their development was uneven as between different States. Only in two States mentioned above, the average owned funds per bank exceeded Rs. 3 lakhs which was then accepted as the minimum for a central bank. By and large, the characteristic features of most central banks in other States were weak capital structure and low level of deposits and high overdues and bad debts. Some of them were undertaking trading activities. Their staff was inadequately trained and generally of poor quality.

2.19 Of the 16 State co-operative banks (there was a State co-operative bank in each of the Part 'A' and Part 'B' States except Jammu & Kashmir and in 4 out of 10 Part 'C' States), the Bombay and Madras State co-operative banks, between themselves, accounted for 54 per cent of the deposits of Rs. 21.2 crores as at the end of 1951-52. Like the central co-operative banks, many of the apex banks also suffered from certain unsatisfactory features, such as financing of individuals in preference to affiliated institutions, em-

ployment of short-term funds for medium-term purposes, combination of trading and banking, etc. In some of them, overdues were also heavy.

2.20 The Committee of Direction made an attempt to give a new direction to the co-operative credit movement and co-ordinate its growth with the planned efforts for the development of the rural sector. Its recommendations, which ranged over a wide field aimed at (*a*) reorganization and strengthening of primary co-operative credit societies into large-sized societies, (*b*) introduction of the production-oriented crop loan system instead of the usual security-oriented one, (*c*) reorganization and strengthening of the State and central co-operative banks through share capital participation by the Government and liberal credit facilities from the Reserve Bank, so that in turn they would be in a position to extend appropriate support to the primary institutions for providing more credit to agriculturists, (*d*) integration of co-operative credit with co-operative marketing and processing activities, and (*e*) provision of suitable training arrangements for the personnel of co-operative credit institutions. The recommendations of the Survey set the pace for a rapid expansion of co-operative credit, and the Reserve Bank came to assume considerable responsibilities for the development of co-operative banking and agricultural credit.

—Primary Agricultural Credit Societies

2.21 The recommendations of the Survey Committee had become part of the Second Five-Year Plan and were implemented vigorously by the Reserve Bank as well as by the State Governments. However, the formation of large-sized primary agricultural credit societies by amalgamation of small-sized societies had to be given up[1] when about 7,000 societies were set up as against a target of 10,400 provided for in the Plan. But the programmes for revitalisation or reorganisation of small-sized societies into viable units were pursued which received further fillip following the recommendations of the Committee on Co-operative Credit.[2]

2.22 The total number of societies which increased to 2.12 lakhs by 1960-61 was brought down to 1.63 lakhs in 1969-70 through the process of reorganisation. During the same period, the proportion of villages covered by active primary societies increased to 85 per cent. Membership of societies increased, during 1951-52 to 1969-70, from 48 lakhs to 298 lakhs. The loans made by societies and outstanding against members increased from Rs. 34 crores to Rs. 711 crores during the same period.

2.23 The share of co-operative credit in the total borrowings of agriculturists was estimated to have reached 15.5 per cent by 1961-62 and, though

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[1] *Report of the All-India Rural Credit Review Committee*, Reserve Bank of India, 1969, p. 30.
[2] *Report of the Committee on Co-operative Credit*, Government of India, 1960.

no precise estimates are available, around 25 per cent by 1969-70. Even as loans increased, overdues also increased which amounted to Rs. 268 crores or 37.7 per cent of outstandings as at the end of June 1970, as compared with Rs. 8.52 crores or 25.3 per cent of outstandings in 1951-52.

—Central Co-operative Banks

2.24 In terms of the recommendations of the Survey Committee, reorganisation of the central co-operative banks generally on the lines of one bank per district was pursued by the Reserve Bank. As a result, the number came down to 340 at the end of June 1970. There was a general improvement in their financial position and loan operations. The members' capital of Rs. 94.73 crores together with Government share capital amounted to an impressive figure of Rs. 128 crores as against Rs. 4.60 crores in 1951-52. Deposits rose almost 10 times to Rs. 381.7 crores and loans outstanding rose to Rs. 740 crores from Rs. 36 crores. Their overdues also were high and amounted to 29 per cent of outstanding loans in 1969-70 as against 13.5 per cent in 1951-52.

—State Co-operative Banks

2.25 Through the process of reorganisation initiated in terms of recommendations of the Survey Committee, State co-operative banks came to be organised—in some cases reorganised—in all the States and the Union Territories. As against 25 banks as on June 30, 1970, 14 were included in the Second Schedule to the Reserve Bank of India Act. Their operations increased severalfold during the period 1951-52 to 1969-70, deposits having risen from Rs. 21 crores to Rs. 234 crores and loans outstanding from Rs. 20 crores to Rs. 510 crores. State co-operative banks borrowed progressively larger amounts of money from the Reserve Bank. The outstandings in this respect increased from Rs. 7 crores to Rs. 243 crores.

—Land Mortgage/Development Banks

2.26 The number of central land development banks increased from 6 in 1951-52 to 19 in 1969-70, while that of primary land development banks increased from 289 to 809. Total loans advanced increased from Rs. 3 crores to Rs. 153 crores during the same period. The value of debentures outstanding of land development banks similarly increased from Rs. 8 crores to Rs. 570 crores.

2.27 The Reserve Bank has emerged as the principal agency, apart from the States, engaged in the task of reorganisation of co-operative banking and credit institutions in different States, and for the provision of financial accommodation to satisfy their needs. Following the recommendations of the All-India Rural Credit Survey Committee, the Reserve Bank set up a fund

called the National Agricultural Credit (Long Term Operations) Fund for the purpose, among other things, of making loans to State Governments to enable them to participate in the share capital of co-operative banks and primary credit societies.

2.28 The Reserve Bank had also set up another fund called the National Agricultural Credit (Stabilization) Fund to be used for making loans to State co-operative banks for converting short-term loans into medium-term loans under special circumstances such as widespread drought, crop failure, etc. The norms for providing financial accommodation to the co-operative banks were liberalized by the Reserve Bank as a result of the recommendations of the Survey Committee, and again following the recommendations of the Committee on Co-operative Credit (1960). In pursuance of the recommendations of the All-India Rural Credit Review Committee, the Reserve Bank has reconstituted in February 1970 its Standing Advisory Committee on Rural and Co-operative Credit as the Agricultural Credit Board, pending the amendment to the Reserve Bank of India Act.

2.29 While on the whole there has been larger flow of credit through the co-operative system it continues to show weaknesses, particularly in certain parts of the country. These have been gone into in great depth by the All-India Rural Credit Review Committee and the main aspects have also been discussed in Chapters 8 to 10 of this Report.

Credit to Small Scale Industry

2.30 Another important sector of the economy which experienced difficulties in regard to credit was small scale industries. In the country's plans for economic development this sector was given a high priority because of its high employment potential. However, partly because of lack of experience on the part of both the banks and the borrowers in this sector and partly because of the rapidly increasing demands for credit from the large and medium scale industry this sector had to rely on the resources of the unorganised money market for its credit requirements. To remedy the situation, three types of measures were taken. The first measure was to organise systematic studies of these problems and bring the industrialists and the bankers together for discussing and finding solutions to them. In pursuance of the suggestions made at the 'Seminar on Financing of Small Scale Industries' organised by the Reserve Bank at Hyderabad in 1959, the Government of India, in consultation with the Reserve Bank formulated a Credit Guarantee Scheme to guarantee the major part of the advances given by commercial banks to small scale industries. This was the second type of measures. The guarantee is given by the Government of India on payment of a small fee related to the amount of the advance. This scheme is administered by the Industrial Finance Department of the Reserve Bank. Third, in its credit policy the Reserve Bank incorporated devices which stimulated commercial

bank credit to this sector. Thus, in 1962, the Reserve Bank introduced a policy of granting scheduled commercial banks additional rights to borrow from it at concessional rates in case they increased the quantum of lending to small scale industries. These concessions have continued, though in different forms, *e.g.*, by providing refinance at Bank rate irrespective of the NLR in regard to the increase in short-term lending to small scale industries and agriculturists over a specified base period, and rediscounting of bills under the new bills rediscounting scheme. The provisions of the Credit Guarantee Scheme were also liberalised.

2.31 As a result of the measures taken to promote the flow of credit from the organised banking system to small scale industries, the quantum of credit extended to this sector by commercial banks and particularly by national banks has shown a rapid rise.[1]

Credit for Exports

2.32 At the beginning of the period under review the country's exports consisted largely of traditional items such as tea, jute-goods, cotton textiles, manganese ore, mica, black pepper, raw cotton, oil seeds and so on. The main markets were countries in the sterling area and to a small extent the U.S.A. and Canada. As the export efforts were intensified, the range of items exported widened and new markets for traditional exports developed. Here, the difficulties that arose were of three types. In the first place, in most of the countries, exchange controls or multiple currency practices were in existence. This meant that exporters as well as banks which financed them, could run into difficulties in obtaining the proceeds of exports for no fault of their own whenever the importing countries blocked the transfer of payments from the importers to the exporters. Secondly, adequate information was not available regarding the creditworthiness of the importers in many of these countries. Exporters in India and their banks, therefore, needed a certain amount of protection against default on the part of the importers for various reasons including wilful defaults. Thirdly, with the intensification of the export drive, a number of small or inexperienced parties entered the export trade. Banks required a certain amount of protection for the advances made by them to such exporters. Yet another category of cases where protection was needed was exports of capital goods on deferred payment basis which are assuming increasing importance in recent years.

2.33 One of the important measures taken to facilitate credit for exports was the setting up of the Export Risks Insurance Corporation in 1957, which offered insurance to exporters against the types of risks mentioned above. In 1964, the Corporation was renamed as Export Credit and Guarantee Corporation and in that capacity it has been offering guarantees

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[1] See Chapter 7

to banks for the various types of finance given by them to the exporters, in addition to providing insurance cover to exporters.

2.34 Apart from this measure, the Reserve Bank endeavoured to stimulate bank credit to exporters by exempting such credit from the purview of its measures to regulate the total volume of bank credit. Furthermore, since 1968, concessional rates of interest have been fixed for export credit by banks. To compensate the banks for the difference between this rate and the rate they would normally have obtained, the Government of India pays to them a subsidy at the rate of 1½ per cent per annum on their outstanding amount of export credit.

Credit to Other Small Borrowers

2.35 As part of the policy to promote the extension of credit to borrowers of small means in the priority and other relatively neglected sectors, the Reserve Bank promoted a new public limited company, known as the Credit Guarantee Corporation of India Ltd., on January 14, 1971. This Corporation provides guarantee cover for small loans and other credit facilities extended by scheduled commercial banks and other eligible institutions to transport operators, retail traders, self-employed persons, professionals, other business enterprises and small farmers.

Term Credit

Industry

2.36 Another aspect of policy has been to create financial institutions for filling certain credit gaps in the credit system. One such gap related to the supply of term credit to industries in India. With the increased tempo of industrial development particularly during the Second Five-Year Plan, the demand for short, medium and long-term credit increased. Commercial banks met the short-term credit requirements. They also met a certain portion of the demand for term credit in an indirect way such as by subscribing, to a limited extent, to the shares and debentures of industrial concerns, underwriting of issues in a limited way and 'rolling over' of short-term credit. However, in these ways they were able to meet only a limited part of the demand for term credit, and in view of the structure of their liabilities as well as established practices, they were unwilling to give credit for medium and long-term purposes on a large scale. Hence, two sets of measures were taken to solve the problem : (*a*) to set up institutions specialising in term credit and (*b*) to induce banks to extend such credit. The Industrial Finance Corporation of India was established in 1948 under a separate statute for the primary purpose of providing medium and long-term finance to industries. Various State Financial Corporations were set up under the State Financial Corporations Act, and the Industrial Credit and Investment Corporation of India was established in 1955. In 1958, the

Refinance Corporation for Industry was set up for the purpose of providing medium-term credit facilities through established banking channels to medium-sized industrial units (*i.e.*, units with resources upto Rs. 2½ crores), in the private sector. In 1964, this institution was merged with the Industrial Development Bank of India (IDBI) which was set up as the apex institution of an integrated structure of industrial financing institutions in the country. The IDBI also assists exports on deferred credit terms through its schemes of refinancing banks which finance such exports, and direct participation with banks in financing the exports.

Agriculture

2.37 The Agricultural Refinance Corporation was set up in 1963 as a subsidiary of the Reserve Bank for providing medium-term and long-term finance to eligible institutions for promoting the development of agriculture and allied activities by way of refinance. It refinances those agricultural development projects which cannot be financed by the existing credit agencies either on account of the large outlay involved or because the terms and conditions of repayment are such that they cannot be brought within the normal rules of business under which these agencies function. The institutions which are eligible to borrow from the Agricultural Refinance Corporation are the State co-operative banks, central land development banks and scheduled commercial banks.

Deposit Insurance Corporation

2.38 Although, as a result of the various measures taken by the authorities to strengthen the banking system the frequency of bank failures was considerably reduced, there was, for a long time, no machinery to offer any protection to bank depositors in the event of the failure of a bank. The failure of the Laxmi Bank and the Palai Central Bank highlighted the risks of loss of the savings of depositors of banks. This ultimately resulted in the enactment of the Deposit Insurance Corporation Act, 1961, which led to the establishment of the Deposit Insurance Corporation (DIC) in January 1962. It gives some measure of protection to depositors of commercial banks. Initially, the DIC provided insurance cover to any one depositor in respect of his deposit in any commercial bank in the same capacity and in the same right upto a sum of Rs. 1,500. This cover was raised and extended to deposits of Rs. 5,000 in January 1968, and to Rs. 10,000 in April 1970. As a result of the increase in cover, the percentage of fully protected accounts to the total number of accounts is estimated to have gone up to 97, and that of insured deposits to total deposits to 61. The Deposit Insurance Corporation (Amendment) Act, 1968 has extended the scheme of deposit insurance to eligible co-operative banks, *i.e.*, State co-operative banks, central co-operative banks and primary co-operative banks having paid-up capital and reserves of Rs. 1 lakh and over and the law governing which provides, *inter*

alia, that the Reserve Bank's consent is necessary for reconstruction, amalgamation or winding up of a co-operative bank. However, the provisions of the Act cannot be extended to co-operative banks without the enactment of the necessary legislation by the States so as to render the co-operative banks in the respective States eligible for the scheme.[1]

UNIT TRUST OF INDIA

2.39 In order to promote savings, another institution, *viz.*, the Unit Trust of India (UTI), was set up in 1964. The rationale of setting up this new institution was to mobilise and channel the savings of the relatively small investors into industrial securities. The UTI has made rapid progress, so that at the end of September 1971, the face value of units in the hands of the unit holders was Rs. 100.4 crores.

BANKING LEGISLATION

2.40 Comprehensive banking legislation covering the organisation, management, audit and liquidation of banks was recommended by the Indian Central Banking Enquiry Committee (1931). As there was no immediate prospect of legislation dealing solely with the banking companies, the Indian Companies Act, 1913, was amended in 1936 and a separate chapter containing provisions relating to banking companies was added to that Act. The amendments were mainly directed towards strengthening the capital structure of banks by prescribing the minimum paid-up capital for new banks, maintenance of reserve fund and cash reserves, restrictions on the nature of subsidiary companies and on the activities of managing agency system, and prohibiting banks from conducting types of business other than those specified in the Act.

2.41 The amendment of the Company Law in 1936 was only an interim measure. Soon after this legislation, proposals for a comprehensive Banking Act were taken up by the Reserve Bank with the Government. The failure of the Travancore National and Quilon Bank Ltd., in 1938, also drew attention to the urgent need for comprehensive banking reform and legislation. In November 1939, the proposals for a comprehensive Banking Act were submitted to the Government by the Reserve Bank. These proposals were circulated for eliciting public opinion but in view of the abnormal conditions prevailing in the country due to the outbreak of the Second World War and divergence in the opinions received, the enactment of the legislation was held up. However, in order to restrict the growth of mushroom banking companies, certain amendments were passed, in 1942 and 1944, to the Indian Companies Act restricting the use of the word 'bank,' 'banker' or

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1 A few States and a Union Territory have already passed such legislation and hence the scheme has been extended to the co-operative banks operating there.

'banking' as a part of their name by companies, and also imposing certain restrictions on employment of persons, composition of different categories of capital and on voting rights. Another abortive effort for a comprehensive legislation was made in 1944 and a bill was actually introduced in the Legislative Assembly but it lapsed. Powers to inspect banking companies, under a directive from the Government, and to control opening of new branches by banks were conferred on the Reserve Bank in 1946. A draft bill was once again introduced in the same year which was replaced by another bill in 1948 due to technical difficulties and the Banking Companies Act was ultimately passed in 1949.[1]

2.42 The Act, which came into force on March 16, 1949, provided, among other things, for (*i*) classification of companies into banking and non-banking companies ; (*ii*) restrictions on certain forms of employment ; (*iii*) minimum paid-up capital and reserves ; (*iv*) prohibition of common directors ; (*v*) restriction on declaration of dividend and transfer of a certain percentage of the profits to the reserve fund ; (*vi*) maintenance of minimum cash reserves ; (*vii*) minimum liquid assets ratio ; (*viii*) restrictions on the nature of subsidiary companies ; (*ix*) licensing of banking companies ; (*x*) restrictions and control on loans and advances ; (*xi*) control over branch expansion ; (*xii*) maintenance of minimum assets in India ; (*xiii*) accounts and balance sheet ; (*xiv*) inspection of banking companies ; (*xv*) suspension of business and winding up ; and (*xvi*) schemes of arrangement and amalgamation.

2.43 The Banking Companies Act, 1949, was enacted mainly for the purpose of protecting the interests of the depositors. As and when experience showed that the provisions were inadequate, fresh provisions were added to the Act or the existing provisions were amended. The main amendments made between 1949 and 1956 related to the speedy disposal of winding up proceedings, simplified procedure for amalgamation of banking companies on voluntary basis, regulation of opening of branches by Indian banks in foreign countries, extension of the powers of the Reserve Bank in respect of the terms of appointment of directors, managing directors and chief executive officers, issue of directions to banking companies in relation to matters of policy and deputation of 'observers' by the Reserve Bank to banking companies for the purpose of observing and reporting on the conduct of their affairs.

2.44 The Banking Companies Act was further amended in 1959, with a view to providing for some degree of flexibility in the operations of banking companies, in view of the then prevailing banking conditions. These mainly permitted banks to pay a dividend without writing off depreciation, if any,

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[1] See also paragraph 17 of Annexure 'B' to Chapter 2 of the *Report of the Study Group to Review Legislation Affecting Banking*.

on certain types of investments, to maintain cash reserves (by non-scheduled banks) with the State Bank of India and other notified banks[1] and to form subsidiaries for carrying on banking business exclusively outside India. The amending Act, at the same time, enhanced the powers of the Reserve Bank for control over the banking system, *e.g.*, removal of directors and managers of banking companies if they were found to have contravened any laws, inspection of foreign branches of Indian banks and enlarging the grounds on which application could be made by the Reserve Bank for compulsory winding up of a bank. Later, in 1960, the banks were protected for not disclosing their inner reserves to authorities constituted under the Industrial Disputes Act who could, however, obtain certificates from the Reserve Bank regarding the amount of such inner reserves.

2.45 The failure of the Laxmi Bank and the Palai Central Bank in 1960, focussed the attention of the public and the authorities on the inherent risks involved in allowing a large number of substandard banks to continue to function. The Banking Companies Act was, therefore, amended to empower the Reserve Bank to apply to the Central Government for grant of moratorium to banks and sanction of schemes for their reconstruction or amalgamation with another banking company. As pointed out earlier, these bank failures ultimately resulted in the establishment of the DIC.

2.46 Subsequently, in the years 1962 and 1963, amendments to the Act were mainly made for: (*i*) augmenting the owned funds of banks by providing that transfers to reserve fund of twenty per cent of net profits should continue to be made even after the reserve fund equalled the paid-up capital; (*ii*) requiring the foreign companies to deposit twenty per cent of their annual profits with the Reserve Bank ; (*iii*) raising the minimum capital requirement in the case of a new bank from Rs. 50,000 to Rs. 5 lakhs ; (*iv*) raising the level of the minimum liquidity ratio and fixing a uniform rate of 3 per cent for cash reserves for both demand and time liabilities instead of 5 per cent and 2 per cent respectively ; (*v*) enabling the Reserve Bank to vary cash reserve requirements ; (*vi*) vesting powers in the Reserve Bank to control the grant of advances to borrowers by banking companies, and to remove their executive personnel, etc. ; (*vii*) further restricting the voting rights of an individual shareholder of a banking company from 5 per cent to 1 per cent of total voting rights ; (*viii*) restricting the period of appointment of the chief executive officer to 5 years at a time ; and (*ix*) granting powers to the Reserve Bank for appointing additional directors for a banking company.

2.47 'Banking' is a Central subject and the Union had to regulate also banking institutions in the co-operative sector. The scheme of voluntary inspection of co-operative banks by the Reserve Bank to ensure the proper utilisation of the concessional refinance granted to co-operative institutions

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1 The subsidiaries of the State Bank were so notified.

did not prove effective. Moreover, the operations of the co-operative banks had an important bearing on the currency and credit situation, the regulation of which is the responsibility of the Reserve Bank. For all these reasons, it was necessary to bring such banks also within the ambit of the statutory control of the Reserve Bank. The Banking Laws (Application to Co-operative Societies) Act, 1965, which amended the original Act, extended its provisions to the co-operative banks with such modifications as are specifically indicated in that Act. The provisions of the Act relating to amalgamation, reconstruction and liquidation of banking companies are not applicable to such co-operative banking institutions as these matters come under the State List. With these changes, the Banking Companies Act, 1949, has been renamed as the Banking Regulation Act, 1949.

2.48 Amendments were made in 1969 in order to implement the initiation of several measures by the Government over the banking system for exercising what has come to be known as 'Social Control' over banking.[1] These provisions, *inter alia*, related to: (*i*) reconstitution of the Boards of Directors of banks, with a majority of non-industrialist directors, chosen from persons having special knowledge or practical experience in accountancy, agriculture, rural economy, small scale industries, co-operation, etc., and appointment of professional bankers as full-time chairmen and (*ii*) grant of any new loans or advances to the directors/members of Advisory Committees constituted in India and the concerns in which they are interested in specified capacities. The social control legislation became effective from February 1969. By the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, which was given retrospective effect from July 19, 1969, the undertakings of the 14 major Indian scheduled commercial banks, each with a deposit of Rs. 50 crores or above[2] were nationalised.

Inspection of Banks by the Reserve Bank

2.49 The practice of inspecting banking companies on a restrictive scale was started by the Reserve Bank in consultation with the Government of India in 1940. The inspections were then carried out with the consent of the banks concerned for the purpose of considering their eligibility for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934. The Reserve Bank inspections were placed on statutory basis in 1946 by the promulgation of the Banking Companies (Inspection) Ordinance. The Banking Companies Act, 1949 (renamed in 1966 as 'Banking Regulation Act') later vested in the Reserve Bank powers to carry out inspections of banking companies for various purposes, under different sections of the Act. Under

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[1] See paragraphs 2·64 to 2·68.

[2] These were The Central Bank of India Ltd., The Bank of India Ltd., The Punjab National Bank Ltd., The Bank of Baroda Ltd., The United Commercial Bank Ltd., Canara Bank Ltd., United Bank of India Ltd., Dena Bank Ltd., Syndicate Bank Ltd., The Union Bank of India Ltd., Allahabad Bank Ltd., The Indian Bank Ltd., The Bank of Maharashtra Ltd., and The Indian Overseas Bank Ltd.

these powers, the Reserve Bank instituted systematic periodical inspections of all the banking companies governed by the Act. The inspections enable the Reserve Bank to have an intimate knowledge of the working of each individual commercial bank and to help the banks in the establishment of sound banking traditions by drawing their attention to the defects and unsatisfactory methods of operation in their working. The inspections also enable it to take corrective measures such as issue of directions to banks and appointment of observers to attend the Board Meetings and giving advice for voluntary amalgamation and in extreme cases initiating action of compulsory amalgamation, reconstruction or liquidation of banks.

2.50 The pace of inspections was steadily accelerated by the Reserve Bank, and in 1958 it decided to aim at inspecting each bank once a year. However, this was not found practicable in the case of major banks, and the national banks are now being inspected at longer intervals. Efforts are also being made by the Reserve Bank to assess during these inspections, the implementation of national policies and achievement of social objectives by banks, apart from the original function of the inspections of protecting the interest of depositors. The Reserve Bank also has recently been undertaking inspections to examine systems and performance of banks, and inspections of branches of different banks operating at particular centres in the context of the wider objectives before the banks. These inspections enable the Reserve Bank, *inter alia*, to make an assessment—both comparative as well as in totality—of the performance of branches of different commercial banks at the same centre, and study the local problems for making practical suggestions for their solution. The branches of foreign banks in India as well as the foreign branches of Indian banks are also periodically inspected by the Reserve Bank. The inspection of co-operative banks is also being undertaken on statutory basis from 1966, though even before that, as explained earlier, such inspections were being carried out on a voluntary basis.

2.51 The utility of inspections by the Reserve Bank is borne out by the progress made by the banking companies in eradicating several defects in their working as also in developing sound banking practices. The inspections have also helped the Reserve Bank in weeding out non-viable banking units by refusal of licence to carry on banking business, merger with stronger units, etc., and have thus contributed to the emergence of a well-knit banking system in the country.

2.52 As a corollary to its expanding role as the central bank of the country, the Reserve Bank assumed statutory powers of inspection and regulation of co-operative banks consequent on the extension of certain provisions of the Banking Regulation Act, 1949, to co-operative banks in 1966. The main consideration underlying this measure was, to quote the All-India Rural Credit Review Committee: "the operations of the co-operative banks have so increased in volume in recent years and hence had such an important

bearing on currency and credit situation of the country that it would be anomalous to leave this sector outside the ambit of the Reserve Bank's statutory control. Nor could the facility of deposit insurance which was available to commercial banks be extended to co-operative banks unless the latter were also made subject to a similar degree of control by the bank".[1]

Progress of Commercial Banks, 1951-71

2.53 We may now review the progress of the commercial banking system during the last two decades. The most striking feature of the changing banking scene has been the decline in the number of commercial banks and a very remarkable rise in the number of their branches. The process of weeding out substandard non-viable banks which started with the recommendations of the Travancore-Cochin Banking Inquiry Commission[2] was accelerated after the failure of two scheduled banks in 1960. A number of small local banks which had developed at small towns, were absorbed into larger banks with the result that as the number of smaller banks declined the number of branches of bigger banks increased. The number of banks decreased from 566 at the end of 1951 to 86 at the end of June 1971. Another development was that the relative importance of foreign banks in the banking system declined. Thus the foreign banks which accounted for one-fifth of aggregate deposits and one-fourth of total bank credit at the end of 1951 accounted for less than one-tenth of aggregate deposits and bank credit at the end of June 1971.

2.54 The number of bank offices increased from 4,151 as at the end of 1951 to 11,184 as at the end of 1970 and to 12,041 as at the end of June 1971. An important aspect of this growth in bank offices is the extension of banking facilities to the rural or less developed areas. The State Bank spearheaded the development of commercial banking in the backward and under-developed areas of the country and made the first systematic and planned effort to spread banking in the rural areas. Other commercial banks concentrated their offices in the cities, particularly at the metropolitan centres. The accent of recent branch licensing policy has been to open commercial bank branches in the rural and unbanked areas.

2.55 It may be mentioned that extension of banking to such area was one of the main objects in nationalising the Imperial Bank of India and converting it into the State Bank of India. The Rural Banking Enquiry Committee[3] had recommended in 1950 that in the larger context of meeting the rural credit requirements, the Imperial Bank of India should be persuaded to open 274 branches in five years. In accordance with this recommendation the Imperial Bank after discussion with the Reserve Bank agreed to open 114

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1 *Report of the All-India Rural Credit Review Committee*, Reserve Bank of India, 1969, p. 698.
2 *Report of the Travancore-Cochin Banking Inquiry Commission*, Government of India, 1956.
3 *Report of the Rural Banking Enquiry Committee*, Government of India, 1950.

offices within a period of 5 years from July 1, 1951. However, the bank could open only 63 branches. The major difficulty faced by the bank in carrying out the branch expansion programme was that the new offices opened in rural or semi-urban areas were unremunerative for several years. It was clear, therefore, that without State intervention it would be difficult to provide banking facilities in such areas. Hence, in accordance with the recommendations of the All-India Rural Credit Survey Committee, (1951-52), the undertaking of the Imperial Bank of India was transferred to the new State Bank of India on July 1, 1955 with the exception of the assets and liabilities of the Imperial Bank for its foreign branches. The State Bank of India Act required the bank to establish not less than 400 additional branches within a period of 5 years from July 1, 1955, or such extended period as the Government may specify particularly at the district level and sub-divisional centres. In order to cover the possibility of losses that the State Bank might incur in the initial stages it was also provided in the Act that an Integration and Development Fund may be created out of the contribution from the Reserve Bank or the Government of India from time to time and out of the sums payable as dividend to the Reserve Bank on its holding of shares.[1]

2.56 There was an increase in bank deposits and credit over the period under review, due mainly to the development of the economy and expansion of the branches of commercial banks. Total bank deposits increased from Rs. 909 crores at the end of December 1951 to Rs. 5,699 crores at the end of December 1970. As a proportion of national income, they incresed from 9 per cent in 1951 to 18 per cent in 1970 (Statement 2.2).

2.57 The increase in deposits was not, however, uniformly spread over all parts of the country. Developed States and metropolitan towns accounted for a significant portion of deposits mobilised by commercial banks, although the importance of rural areas in deposit mobilisation is increasing. Another interesting feature was a change in the composition of deposits seen in a shift from current to savings and time deposits. The proportion of current deposits in the total, declined from 50 per cent at the end of 1951 to 25 per cent at the end of 1969. This was due partly to the penetration of commercial banks into rural areas—where initially at least, there was a preference for savings and time deposits—and partly due to the increased facilities and the interest offered by commercial banks to savings and time account holders. Also the Reserve Bank directed the scheduled commercial banks not to pay interest on current accounts (with the exception of accounts belonging to charitable and religious institutions, etc.) with effect from November 1, 1969.[2]

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1 See Chapter 5 for the branch expansion programme of State Bank of India and other banks.

2 Under the revised All-India Inter-Bank Agreement on Maximum Rates on Deposits, the payment of interest on current account payable by major scheduled commercial banks was abolished from January 1, 1963. Accounts maintained by charitable institutions were allowed interest at rate not exceeding 1 per cent per annum.

2.58 The rate of increase in bank credit exceeded the increase in deposits. While aggregate deposits of commercial banks rose between December 1951 and December 1970 by 6 times, total bank credit rose faster and in 1970 was 7 times the level of credit in 1951. As a result, the credit-deposit ratio of commercial banks tended to rise over the period ; it was 69 per cent at the end of 1951 and 78 per cent at the end of 1970. Correspondingly, the ratio of cash in hand and balances with the Reserve Bank to deposits declined steadily from about 11 per cent at the end of March 1951 to 6 per cent at the end of 1970. The ratio of investments to deposits also declined from 41 per cent at the end of March 1951 to 30 per cent at the end of 1969.

2.59 A significant feature of the trends in credit was that while the proportion of total scheduled commercial bank credit to industry showed a remarkable increase, that to the commercial sector declined.

TABLE 2·1—ADVANCES OF SCHEDULED COMMERCIAL BANKS TO VARIOUS SECTORS

(Percentage to total advances)

	March 1951	March 1968
Industry	*34·0*	*67·5*
Commerce	*36·0*	*19·2*
Agriculture*	*2·1*	*2·2*
Personal	*6·8*	*3·7*
Others	*21.1*	*7·4*
	100·0	*100·0*

* Including plantations.
Source : *Report on the Trend and Progress of Banking in India, 1968-69,* Reserve Bank of India.

This reflected both a high rate of growth of industrial production and a growing reliance of industry on the banking system for its capital requirements. It may be mentioned that although credit to "agriculture" as a proportion of total scheduled commercial bank credit continues to be relatively small, the trend is changing so that the proportion of direct finance from these banks to agriculture increased from 1.5 per cent of the total in July 1969 to 5 per cent in March 1971.

2.60 The effect of the changing pattern of assets and liabilities of scheduled commercial banks as well as of the Resrve Bank's policy regarding interest rates was reflected in the changes in the pattern of earnings and expenses. While their total earnings increased from Rs. 45 crores in 1951 to Rs. 427 crores in 1969, the total expenses increased from Rs. 31 crores in 1951 to Rs. 379 crores during the same period. The major source of earnings

was the interest earned from bills and loans. The establishment expenses showed a large increase in absolute terms rather than as a proportion of total expenses and reflected, particularly after 1961, the combined effect of increase in the bank staff, rise in the emoluments due to increase in the cost of living and according to recommendations of the various Awards, as well as the expansion of branches. The proportion of interest paid on deposits to current operating expenses also has shown a marked rise over the period. The net result of these factors on the profitability of scheduled commercial banks was that the amount of profits before tax to total earnings declined almost steadily from 29 per cent in 1951 to 11 per cent in 1969.

2.61 Official policy to encourage commercial banks to open a large number of branches particularly in unbanked areas in a short time, also created the problem of recruitment and training of staff. The number of employees in scheduled commercial banks almost trebled over a period of 13 years from 79,000 at the end of 1956 to 2,20,000 at the end of 1969 (latest available). Yet the banks need more trained staff. Recruitment and training of staff need more attention than previously in the form of setting up and strengthening training institutions and evolving scientific schemes of recruitment.[1]

OTHER INSTITUTIONS

2.62 Apart from commercial and co-operative banks there are other institutions which mobilise deposits. One such institution is the postal savings system. Post office savings banks which are spread all over the country have made notable progress in terms of number of offices, number of deposit accounts and the total amount of deposits[2].

2.63 In the unorganised or semi-organised sector of the country, there are the money-lenders, indigenous bankers and other non-banking financial intermediaries like chit funds,[3] loan and finance companies and nidhis.[3] Some trading and manufacturing companies also accept deposits. The operations of these institutions are important in certain areas and for certain sectors. Later chapters in this Report review their working and deal with the problems which are created by their operations[4].

THE NEED FOR 'SOCIAL CONTROL' OF BANKING

2.64 The brief review made in the foregoing paragraphs in terms of such indices as the number of offices or the magnitude of bank deposits or bank credit shows that commercial banks grew considerably in stability and strength

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1 See Chapter 14.
2 For details see Chapter 6, Paragraphs 6·34 — 6·36.
3 This term is explained in Chapter 17.
4 See Chapters 17 and 18.

over the last 20 years. The co-operative movement also made impressive progress particularly in terms of the number of viable co-operative credit institutions and the amount of credit disbursed. Yet, there still existed certain weak points in the system and credit gaps not filled by these institutions. For instance, while the number of branches of commercial banks increased very rapidly, the overall population served by commercial banks in India is still insignificant as compared to developed countries like the U.K., U.S.A., and Japan. The number of deposit as well as borrowing accounts as a proportion of total population is negligible. Although a number of steps had been taken to improve the flow of credit to sectors of the economy, like agriculture and small scale industries, credit gaps of substantial magnitude still remained to be covered in these sectors. Moreover there were several deserving categories of persons like artisans, other self-employed persons, retail traders and so on, who could not generally obtain credit from commercial banks. The urban co-operative banks catered to the banking and credit needs of the urban middle class consisting of traders, businessmen, artisans, factory workers and salaried persons with a fixed income in urban and semi-urban[1] areas. However, their operations were confined to a few States only and even they satisfied only a part of the requirements of these categories of borrowers. The two sectors of banking, *viz.*, commercial and co-operative banks, worked for the most part in isolation and there was very little co-ordination between the two. A notable feature of Indian commercial banks was the control of the major banks by leaders of commerce and industry. The ratio of paid-up capital and reserves to deposits declined by more than 75 per cent from 9.7 per cent in 1951 to 2.2 per cent in 1969. The increase in deposits in relation to owned capital enabled the industrialist shareholder by contributing only a small amount to bank's capital resources, to command the much larger resources available to the bank in the form of deposits collected from the public at large.

Social Control over Commercial Banks

2.65 The weaknesses mentioned in the preceding paragraphs led to a demand that there should be a re-orientation of the banking system in India. Towards the end of 1965, a beginning was made in the direction of bringing credit activities of banks more in alignment with the planning policies. In this context, mention may be made of the Credit Authorisation Scheme introduced in November 1965. In terms of this scheme scheduled banks were directed to secure prior approval of the Reserve Bank for granting any fresh credit limit of Rs. 1 crore or more to any single party, or any limit that would raise the total limit sanctioned to such party by the entire banking system to Rs. 1 crore or more, on secured and/or unsecured basis. In respect of some types of credit, however, prior approval of the Reserve Bank was not necessary. The scheme of social control over banking was introduced in 1968 with the

[1] See Chapter 10, Paragraphs 10·101 to 10·116.

main objectives of achieving a wider spread of bank credit, preventing its misuse, directing a larger volume of credit to flow to priority sectors and makking it a more effective instrument of economic development. It was considered necessary to evolve proper guidelines for bank managements and to promote a re-orientation of their decision-making machinery, so that the decisions of monetary and credit policy formulated by the Reserve Bank would be effectively implemented. A continuing effort was needed to stimulate savings and attract them into the banking system. It was felt that a purposeful and equitable distribution of credit should be ensured with the help of periodical assessment of the demand for bank credit, determination of priorities for lending and investment among various sectors of the economy and adequate follow-up of these by the banking system.

National Credit Council

2.66 The National Credit Council(NCC), which symbolised the role of credit planning in development, was set up in February 1968, with a view to providing a forum for discussing and assessing credit priorities on an all-India basis. The main functions of the NCC were periodically (*a*) to assess the demand for bank credit from the various sectors of the economy, (*b*) to determine priorities for grant of loans and advances, or for investment, having regard to the availability of resources and requirements of the priority sectors, in particular of agriculture, small scale industries and exports, and (*c*) to co-ordinate lending and investment policies as between commercial and co-operative banks and specialised agencies to ensure optimum utilisation of resources.

2.67 Besides an equitable and more purposeful distribution of available credit, there was a pressing need for mobilising increasing resources for the organised banking system. The scope for such mobilisation was provided by the increase in agricultural income following the change over to the increasing application of improved technology to agriculture. It was felt that co-ordination between different credit agencies was vital and the roles of co-operative and commercial banks should be regarded as complementary to each other. As regards credit allocation, it was felt that filling the credit gaps in some priority sectors should not cause credit gaps to emerge in other important sectors.

Reconstitution of Banks' Boards of Directors

2.68 It was necessary to have bank management re-oriented to the changing concepts of goals of banking. The Banking Laws (Amendment) Act which came into force on February 1, 1969 provided for organisational changes in the reconstitution of the Board of Directors of a bank, with the majority of directors representing persons who had special knowledge or practical experience of agriculture and rural economy, small scale industry, co-

operation, banking, etc. Every Indian bank was required to have a person who had special knowledge and practical experience of banking, finance, economics or business administration as its full time Chairman whose appointment was to be made with the permission of the Reserve Bank.

NCC Targets for Expansion in Credit

2.69 The NCC also fixed the minimum targets for expansion in commercial bank's lending to agriculture and to small scale industries. It further recommended that commercial banks should increase during 1968-69 their contributions to debentures of the land mortgage banks by at least 25 per cent over their performance in 1967-68. The Reserve Bank advised the banks to adopt the area/project approach by selecting certain specified areas/projects, in consultation with State Governments, for expanding agricultural credit, in order to maximise the benefits accruing to agriculture. Another notable development in the sphere of commercial banks' involvement in agricultural finance was the establishment of the Agricultural Finance Corporation Ltd., as a joint venture by the leading commercial banks for financing priority agricultural projects and to help commercial banks participate actively in developing the agricultural sector.

NATIONALISATION OF MAJOR COMMERCIAL BANKS

2.70. Although the banking system had taken certain steps for achieving the objectives of social control, the progress made in this regard was not adequate. With a view to ensuring that banks were adequately motivated towards a speedy achievement of the social purposes such as meeting the legitimate requirements of the weaker sections of the society, 14 major Indian scheduled commercial banks were nationalised on July 19, 1969. It was expected that the nationalised banks would endeavour to ensure that the needs of productive efforts of diverse kinds, irrespective of size and social status of the borrowers and, in particular those of farmers, small scale industries, and self-employed professional groups are met in an increasing measure, and to create fresh opportunities for backward areas in different parts of the country. A number of changes in the banks' attitudes and methods of operation were called for. It was necessary to re-orient the concept of security for loans ; to pay special attention to the growth potential and developmental needs of local areas and to forge closer relations with developmental and term-financing institutions. Also it was necessary to ensure that large borrowers did not have more access to resources of the banks than was actually required for productive use and to prevent the use of credit for speculative and other unproductive purposes. Simultaneously they were required to intensify their efforts, through a co-ordinated branch expansion programme, for deposit mobilisation in all parts of the country and from all sections of the people.

IMPACT ON ALLOCATION OF BANK CREDIT

2.71 As a result of the conscious efforts to increase the flow of credit to the priority sectors, scheduled commercial banks' advances to agriculture, exports, small scale industries, small borrowers and other weaker sections of the community showed a notable rise. Advances for purpose like retail trade and education, which had hitherto received negligible attention by commercial banks also increased. This shift in lending priorities created some stresses and strains on the financial and personnel resources of commercial banks. One of the problems facing the banks at the present is to evolve a system of credit allocation such that while it increases the flow of credit to the sectors hitherto neglected by the organised banking system, it does not create difficulties for other sectors of the economy in attaining their planned rates of growth. Also, the new types of borrowers need to be treated on a different footing from the types of borrowers banks have been used to, as the former are neither familiar with the methods and procedures of commercial banks nor are they able to offer the type of securities commercial banks like to have for their loans.

CONCLUDING OBSERVATIONS

2.72 The two major banking systems, *viz.*, commercial and co-operative banks have to come closer together in meeting the credit needs of the priority sectors in order that each can profit from the experience and knowledge of the other. Apart from the problems of policies and procedures in regard to lending to these sectors there is scope for co-ordination in such matters as training bank staff, providing technical assistance to the smaller banks and so on. In a wider context, there is also the problem of co-ordination between the activities of the banks and the non-banking financial intermediaries. If the expectations of the community regarding the role to be played by all these financial intermediaries in the social and economic development of the country are to be satisfied, a thorough examination needs to be made of the structure, organisation, procedure, policies, laws, etc., relating to them. The rest of the Report deals with these matters.

STATEMENT 2·1—COMMERCIAL BANKING STATISTICS AT A GLANCE

	End of							
	1951	1956	1961	1966	1967	1968	1969	1970‡
1	2	3	4	5	6	7	8	9
1. *Number of Banks (Reporting)*	566	423	292	100	91	86	85	86
(a) Scheduled Banks	92	89	82	73	71	70	71	73
(b) Non-scheduled Banks	474	334	210	27	20	16	14	13
2. *Number of Offices of Banks in India*	4151	4067	5012	6593	6982	7647	9005	11184
(a) Scheduled Banks	2647	2966	4390	6380	6779	7444	8824	11040
(b) Non-scheduled Banks	1504	1101	622	213	203	203	181	144
3. *Population* per office* (in thousands)	87	98	88	76	73	69	60	49
4. *Total Deposits in India* (Rs. crores)	908·5	1159·4	2011·5	3586·8	3962·1	4478·0	5172·7	5698·5
(a) Current Deposits (% to total)	*50*	*39*	*28*	*27*	*27*	*26*	*25*	*N.A.*
(b) Savings Deposits (,,)	*16*	*17*	*16*	*23*	*24*	*24*	*25*	*N. A.*
(c) Fixed Deposits (,,)	*28*	*32*	*47*	*50*	*49*	*50*	*50*	*N. A.*
(d) Other Deposits (,,)	*6*	*12*	*9*	—	—	—	—	—
5. *Average Deposits per office* (Rs. lakhs)	22	29	40	54	57	59	57	51
(a) Scheduled Banks (Rs. lakhs)	32	37	45	56	58	60	58	52
(b) Non-scheduled Banks (,,)	5	7	6	12	13	13	13	8
6. *Deposits per capita (Rs.)*	25	29	46	72	77	85	96	104
7. *Credit @ Outstanding in India* (Rs. crores)	626·9	824·2	1293·2	2454·5	2747·2	3158·7	3729·0	4453·1
(a) Scheduled Banks (Rs. crores)	581·4	781·7	1268·2	2440·8	2734·4	3145·6	3716·7	4448·4
(b) Non-scheduled Banks (,,)	45·5	42·5	25·0	13·7	12·8	13·1	12·3	4·7
8. *Average Credit per office* (Rs. lakhs)	15	20	26	37	39	41	41	40
(a) Scheduled Banks (Rs. lakhs)	22	26	29	38	40	42	42	40
(b) Non-scheduled Banks (,,)	3	4	4	6	6	6	7	3
9. *Credit per capita* (Rs.)	17	21	29	49	54	60	69	82
10. *Deposits as percentage of National Income*	*9*	*10*	*14*	*15*	*14*	*16*	*17*	*18*

STATEMENT 2·1—COMMERCIAL BANKING STATISTICS AT A GLANCE—(*Contd.*)

1	2	3	4	5	6	7	8	9
11. *Paid-up Capital and Reserves* (Rs. crores) ..	75·2	72·2	76·4	98·9	102·2	105·7	111·4	N.A.
(*a*) Indian Scheduled Banks(,,) ..	61·8	60·2	70·6	96·8	100·2	104·0	109·8	N.A.
(*b*) Non-scheduled Banks (,,) ..	13·4	12·1	5·8	2·1	2·0	1·7	1·6	0·9
12. *Ratio of Paid-up Capital and Reserves to Deposits*	*9·7*	*6·7*	*4·1*	*3·1*	*2·9*	*2·6*	*2·2*	*N.A.*
13. *Ratio of Credit to Deposits*	*69*	*72*	*64*	*69*	*69*	*71*	*72*	*78*
14. *Ratio of Investments to Deposits*	*N.A.*	*N.A.*	*36*	*32*	*31*	*31*	*30*	*N.A.*
15. *Ratio of Cash in hand and Balances with RBI to deposits*	*N.A.*	*N.A.*	*8*	*7*	*8*	*7*	*7*	*6*
16. *Number of Bank Employees* (in thousands) ..	N.A.	79	115	170	184	197	220	N.A.
17. *Total Earnings* (Rs. crores)	45·4	64·9	124·0	297·6	342·7	382·5	427·4	N.A.
18. *Total Expenses* (,,)	32·3	51·3	95·7	258·0	300·6	337·6	378·9	N.A.
19. *Establishment Expenses* (Rs. crores) ..	15·4	21·7	35·8	89·9	110·1	127·5	140·7	N.A.
20. *Profits before Tax* (,,) ..	13·1	13·6	28·3	39·6	42·1	44·9	48·5	N.A.
21. *Ratio of Profits before Tax to Total Earnings* ..	*29*	*21*	*23*	*13*	*12*	*12*	*11*	*N.A.*

‡ Provisional.

* Estimated except for the years 1951 and 1961. For other years, figures are based on mid-year estimates of population worked out by the Office of Registrar General of India.

@ Loans and advances and bills purchased and discounted. N.A. : Not available.

Note : Item 12 relates to Indian scheduled commercial banks only ; items 13 to 21 relate to all scheduled commercial banks.

Source : (1) *Statistical Tables Relating to Banks in India*, Reserve Bank of India, for different years.
(2) *Reserve Bank of India Bulletins.*

CHAPTER 3

EXISTING STRUCTURE OF THE BANKING SYSTEM

INTRODUCTORY

3.1 An account has been given in the preceding chapter of the important developments over the two decades ending 1971 in the history of banking in India. In this chapter, we shall first outline the main facts relating to the working of the two major sectors of the Indian banking system, *viz.*, the commercial banks and the co-operative banks as at present. This is followed by a comparison of the salient features of the commercial bank sector and the co-operative bank sector so as to provide the background for the discussion on co-ordination between these two sectors in Chapters 8 to 10.

TYPES OF COMMERCIAL BANKS

3.2 As on June 27, 1969 the commercial bank sector consisted of 72 scheduled[1] commercial and 16 non-scheduled banks, the former accounting for the overwhelmingly large share (over 99.4 per cent) of business. Out of the 72 scheduled commercial banks, 8 banks were in the public sector, comprising the State Bank of India and its seven subsidiaries. In the private sector, there were 49 other scheduled banks, 15 foreign[2] banks and 16 non-scheduled banks. With the nationalisation of the undertaking of 14 Indian commercial banks in the private sector with deposits of Rs. 50 crores and above on July 19, 1969 and with some changes in respect of the smaller commercial banks there were 22 scheduled banks in the public sector, 36 Indian scheduled banks in the private sector, 15 foreign banks and 12 non-scheduled banks as at the end of June 1971.

AGGREGATE DEPOSITS AND ADVANCES OF SCHEDULED COMMERCIAL BANKS

3.3 Aggregate bank deposits of scheduled commercial banks which stood at Rs. 4,645.8 crores at end-June 1969 increased by nearly one-third

[1] Banks which carry on the banking business in India and which (*a*) have paid-up capital and reserves of an aggregate real or exchangeable value of not less than Rs. 5 lakhs, (*b*) are either State co-operative banks or companies as defined in Section 3 of the Companies Act, 1956 or corporations or companies incorporated by or under any law in force in any place outside India or institutions notified by the Central Government in this behalf and (*c*) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interests of their depositors are eligible for inclusion in the second schedule to the Reserve Bank of India Act, 1934, and when so included are known as scheduled banks.

[2] Of these, two banks are under the Custodian of Enemy Property since September 7, 1965 and are inoperative.

and amounted to Rs. 6,215.3 crores at end-June 1971 (Table 3.1). Bank credit which amounted to Rs. 3,598.8 crores at end-June 1969 also increased in nearly the same proportion and stood at Rs. 4,762.9 crores at end-June 1971. At end-June 1969, bank-groupwise, the State Bank of India and its subsidiaries accounted for 26.5 per cent of aggregate deposits and 32.7 per cent of bank credit of all commercial banks, while the 14 banks nationalised in July 1969 accounted for 56.3 per cent of aggregate deposits and 50.7 per cent of bank credit. At end-June 1971, the State Bank of India and its subsidiaries accounted for 27.4 per cent of deposits and 30.2 per cent of bank credit, the 14 nationalised banks accounted for 56.3 per cent of deposits and 54.2 per cent of bank credit. The share of foreign banks in both deposits and credit declined from 10-10.5 per cent to around 9.5 per cent. Other banks accounted for the remaining 7 per cent of deposits and 6 per cent of bank credit.

3.4 Commercial banks have been mainly concerned with short-term and to a small extent medium-term financing of non-agricultural activities. Of the total outstandings as at the end of March 1968 over two-thirds of bank credit went to industry and nearly one-fifth went to commerce. Agriculture including plantations accounted for only 2 per cent of bank credit. With a concerted effort after bank nationalisation, to grant liberal bank credit to the priority sectors, the hitherto neglected and weaker sectors, scheduled banks' advances to agriculture rose from Rs. 188.4 crores in June 1969 to Rs. 378.5 crores in March 1971. Export credit which stood at Rs. 263.4 crores in June 1969 increased to Rs. 363.4 crores in March 1971. Advances to small scale industry rose from Rs. 294.1 crores in June 1969 to Rs. 543.8 crores in March 1971. Advances of public sector banks to agriculture, small industry, road transport, retail trade and small business and self-employed persons constituted 22.8 per cent of their total advances in May 1971 as against 14.5 per cent in June 1969. As on June 25, 1971 the average deposit per office of all scheduled commercial banks was Rs. 52.3 lakhs and the average credit per office was Rs. 40.0 lakhs. Average deposits/credit per office were the highest in the case of foreign banks at Rs. 4.5 crores and Rs. 3.5 crores respectively.

Region-wise Distribution of Commercial Bank Offices

3.5 As on May 31, 1971, commercial banks had 11,845 offices. The distribution of these offices, bank group-wise, is shown in Table 3.2. For the sake of convenience of presentation, the States and Union Territories have been grouped in the table so as to form broad geographical regions. The State Bank of India accounted for 19.0 per cent of all offices, its subsidiaries for 10.2 per cent, the 14 nationalised banks for 53.0 per cent, other Indian scheduled banks for 15.6 per cent, non-scheduled banks for 1.1 per cent and foreign banks for 1.1 per cent. The southern region (Andhra Pradesh, Kerala, Mysore, Tamil Nadu and Pondicherry, Laccadive and Minicoy)

TABLE 3·1—DISTRIBUTION OF DEPOSITS AND CREDIT OF VARIOUS TYPES OF COMMERCIAL BANKS (END-JUNE 1969 AND 1971)

(Rs. crores)

Group of Banks	As on June 27, 1969					As on June 25, 1971				
	No. of banks	No. of offices	Aggregate deposits (excluding inter-bank deposits)	Bank credit (excluding inter-bank credit)	Credit/deposit ratio	No. of banks	No. of offices	Aggregate deposits (excluding inter-bank deposits)	Bank credit (excluding inter-bank credit)	Credit/deposit ratio
1	2	3	4	5	6	7	8	9	10	11
Public Sector Banks										
1 State Bank of India	1	1569	947·8	966·5	102·0	1	2286	1328·0	1148·4	86·5
2. Subsidiaries of the SBI ..	7	893	290·7	218·7	75·2	7	1233	376·4	289·8	77·0
A. Total State Bank Group ..	**8**	**2462**	**1238·5** (*26·5*)	**1185·2** (*32·7*)	**95·7**	**8**	**3519**	**1704·4** (*27·4*)	**1438·2** (*30·2*)	**84·4**
B. Nationalised Banks	**14+**	**4134**	**2633·4** (*56·3*)	**1831·4** (*50·7*)	**69·5**	**14**	**6368**	**3508·8** (*56·3*)	**2586·5** (*54·2*)	**73·7**
C. Total Public Sector Banks (A + B)	**22**	**6596**	**3871·9** (*82·8*)	**3016·6** (*83·4*)	**77·9**	**22**	**9887**	**5213·2** (*83·7*)	**4024·7** (*84·4*)	**77·2**
D. Private Sector Banks										
1. Foreign Banks	15@	130	477·4 (*10·2*)	385·2 (*10·6*)	80·7	15@	130	583·7 (*9·4*)	454·3 (*9·5*)	77·8
2. Other scheduled commercial banks	35	1319	296·5 (*6·3*)	197·0 (*5·4*)	66·4	36	1875	418·4 (*6·7*)	283·9 (*5·9*)	67·9
E. All Scheduled Commercial Banks (C + D)	**72**	**8045**	**4645·8** (*99·4*)	**3598·8** (*99·5*)	**77·5**	**73**	**11892**	**6215·3** (*99·8*)	**4762·9** (*99·8*)	**76·6**
F. Non-scheduled Banks ..	16	217	28·0 (*0·6*)	16·4 (*0·5*)	58·6	12*	121	12·0* (*0·2*)	4·7* (*0·2*)	39·2*
G. All Commercial Banks (E+F)	**88**	**8262**	**4673·8** (*100·0*)	**3615·2** (*100·0*)	**77·4**	**85**	**12013**	**6227·3** (*100·0*)	**4767·6** (*100·0*)	**76·6**

\+ These banks were nationalised only in July 1969 but these figures are shown here to facilitate comparison.
@ Two foreign banks are under Custodian of Enemy Property since September 1965 and are inoperative. Data relate to operative banks only.
* Provisional as on the last Friday of December 1970.
Figures in brackets indicate percentages to total

Source : Reserve Bank of India.

TABLE 3·2—REGION-WISE DISTRIBUTION OF OFFICES IN INDIA OF COMMERCIAL BANKS AS ON MAY 31, 1971

Region	State Bank of India	Subsidiaries of S.B.I.	Total of 2 and 3	14 Nationalised Banks	Total of 4 & 5	*Percentage share of total*	Other Scheduled Banks	Non-scheduled Banks	Total of 8 & 9	*Percentage share of total*	Foreign Banks	*Percentage share of total*	Grand Total (6+10+12)	*Percentage share of Total*
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
A. Southern Region														
(1) Andhra Pradesh ..	263	145	408	253	661	*7·8*	198	—	198	*10·0*	2	*1·5*	861	*7·3*
(2) Kerala	30	183	213	270	483	*5·0*	278	71	349	*17·7*	4	*3·1*	836	*7·1*
(3) Mysore	58	181	239	558	797	*8·2*	315	1	316	*16·0*	1	*0·8*	1,114	*9·4*
(4) Tamil Nadu	205	23	228	730	958	*9·8*	384	—	384	*19·4*	12	*9·2*	1,354	*11·4*
(5) Pondicherry	4	—	4	14	18	*0·2*	2	—	2	*0·1*	—	—	20	*0·1*
(6) Laccadive and Minicoy	—	—	—	2	2	—	—	—	—	—	—	—	2	—
Total ..	560	532	1092	1827	2919	*30·0*	1177	72	1249	*63·2*	19	*14·6*	4187	*35·3*
B. Northern Region														
(1) Haryana	51	25	76	115	191	*2·0*	57	1	58	*2·9*	—	—	249	*2·1*
(2) Jammu & Kashmir ..	35	—	35	31	66	*0·7*	3	27	30	*1·5*	1	*0·8*	97	*0·8*
(3) Punjab	67	84	151	275	426	*4·4*	117	6	123	*6·3*	3	*2·3*	552	*4·7*
(4) Rajasthan	13	252	265	183	448	*4·6*	77	—	77	*3·9*	—	—	525	*4·4*
(5) Chandigarh	6	2	8	16	24	*0·2*	4	—	4	*0·2*	—	—	28	*0·2*
(6) Delhi	49	8	57	208	265	*2·7*	58	1	59	*3·0*	18	*13·8*	342	*2·9*
(7) Himachal Pradesh ..	25	11	36	47	83	*0·9*	2	—	2	*0·1*	1	*0·8*	86	*0·7*
Total	246	382	628	875	1503	*15·5*	318	35	353	*17·9*	23	*17·7*	1879	*15·8*
C. Western Region														
(1) Gujarat	140	110	250	817	1067	*11·0*	5	—	5	*0·4*	—	—	1072	*9·1*
(2) Maharashtra	230	72	302	958	1260	*12·9*	161	2	163	*8·2*	38	*29·2*	1461	*12·4*
(3) Goa, Daman & Diu ..	12	1	13	96	109	*1·1*	1	—	1	—	1	*0·8*	111	*0·9*
(4) Dadra and Nagar Haveli	—	—	—	3	3	—	—	—	—	—	—	—	3	—
Total	382	183	565	1874	2439	*25·0*	167	2	169	*8·6*	39	*30·0*	2647	*22·4*

TABLE 3·2—REGION-WISE DISTRIBUTION OF OFFICES IN INDIA OF COMMERCIAL BANKS AS ON MAY 31, 1971—(*Contd.*)

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
D. Eastern Region														
(1) Assam	51	1	52	77	129	*1·3*	—	6	6	*0·3*	1	*0·8*	136*	*1·1*
(2) Bihar	190	1	191	246	437	*4·5*	3	1	4	*0·2*	—	—	441	*3·7*
(3) Orissa	87	—	87	76	163	*1·7*	8	—	8	*0·4*	—	—	171	*1·5*
(4) West Bengal	161	2	163	440	603	*6·2*	32	—	32	*1·6*	46	*35·4*	681	*5·8*
(5) Manipur, Tripura, Andaman and Nicobar Islands, Nagaland & NEFA ..	12	—	12	14	26	*0·2*	—	—	—	—	—	—	26	*0·2*
Total	501	4	505	853	1358	*13·9*	43	7	50	*2·5*	47	*36·2*	1455	*12·3*
E. Central Region														
(1) Uttar Pradesh ..	388	7	395	579	974	*10·0*	130	11	141	*7·1*	2	*1·5*	1117	*9·5*
(2) Madhya Pradesh ..	174	99	273	273	546	*5·6*	14	—	14	*0·7*	—	—	560	*4·7*
Total	562	106	668	852	1520	*15·6*	144	11	155	*7·8*	2	*1·5*	1677	*14·2*
GRAND TOTAL ..	**2251**	**1207**	**3458**	**6281**	**9739**	*100·0*	**1849**	**127**	**1976**	*100·0*	130	*100·0*	**11845**	*100·0*
	(19·0)	*(10·2)*	*(29·2)*	*(53·0)*	*(82·2)*		*(15·6)*	*(1·1)*	*(16·7)*		*(1·1)*		*(100·0)*	

* Includes offices opened in Meghalaya.

Source : Reserve Bank of India.

TABLE 3·3—STATE-WISE DISTRIBUTION OF NUMBER OF OFFICES, DEPOSITS AND CREDIT OF ALL COMMERCIAL BANKS (END-DECEMBER 1969)

(Amounts in Rs. lakhs)

State/Union Territory	No. of banks operating	No. of offices	Population per office* ('000s)	Deposits Amount	Deposits % to total	Credit Amount	Credit % to total	Credit Deposit Ratio
States								
Andhra Pradesh ..	22	618	69	17305	*3·3*	16302	*4·4*	94·2
Assam	12	89	171	4839	*0·9*	2065	*0·6*	42·7
Bihar	16	309	183	18609	*3·6*	5057	*1·4*	27·2
Gujarat	20	833	31	45906	*8·9*	23231	*6·2*	50·6
Haryana	18	191	51	6411	*1·2*	3028	*0·8*	47·2
Jammu & Kashmir ..	9	48	83	3505	*0·7*	420	*0·1*	12·0
Kerala	28	642	32	16552	*3·2*	11371	*3·0*	68·7
Madhya Pradesh ..	17	361	110	12638	*2·5*	7052	*1·9*	55·8
Maharashtra	50	1199	41	122998	*23·8*	113261	*30·4*	92·1
Mysore	28	851	34	25527	*4·9*	18556	*5·0*	72·7
Nagaland	2	4	107	124	—	10	—	8·1
Orissa	13	111	191	3596	*0·7*	1779	*0·5*	49·5
Punjab	24	415	35	23101	*4·5*	7670	*2·0*	33·2
Rajasthan	15	393	65	9355	*1·8*	4664	*1·3*	49·9
Tamil Nadu	39	1104	35	31321	*6·1*	41820	*11·2*	133·5
Uttar Pradesh ..	27	818	109	42710	*8·3*	19052	*5·1*	44·6
West Bengal	34	533	82	71225	*13·8*	71654	*19·2*	100·6
Union Territories								
Chandigarh	12	25	6	4085	*0·8*	2608	*0·7*	63·8
Delhi	37	296	14	49331	*9·5*	20031	*5·4*	40·6
Goa, Daman & Diu ..	14	96	7	5216	*1·0*	2351	*0·6*	45·1
Himachal Pradesh ..	7	48	73	1751	*0·3*	390	*0·1*	22·3
Pondicherry	6	12	37	552	*0·1*	480	*0·1*	87·0
Tripura	3	6	245	453	*0·1*	27	—	6·0
Others@	2	5	247	163	—	23	—	14·1
Total		9007	60	517273	*100·0*	372902	*100·0*	72·1

@ Andaman and Nicobar Islands, Dadra and Nagar Haveli and Manipur.
* Population figures are mid-year estimates.
Source: Statistical Tables Relating to Banks in India, 1969.

had 35.3 per cent of all bank offices. This region had also the largest share (63.2 per cent) of offices of smaller Indian banks (scheduled and non-scheduled). Offices of non-scheduled banks were concentrated in Kerala, where 71 out of total of 127 offices were located. The western region (Gujarat, Maharashtra, Goa, Daman and Diu, Dadra and Nagar Haveli) had 22.4 per cent of all bank offices and 25.0 per cent of public sector banks' offices. The northern region had 15.5 per cent of public sector bank offices and 15.8 per cent of all bank offices. The central region had 15.6 per cent of public sector bank offices and 14.2 per cent of all bank offices. The eastern region had 13.9 per cent of public sector bank offices and 12.3 per cent of all bank offices. Offices of foreign banks were concentrated in West Bengal (35.4 per cent), Maharashtra (29.2 per cent), Delhi (13.8 per cent) and Tamil Nadu (9.2 per cent).

State-wise Distribution of Bank Deposits and Bank Credit

3.6 The latest available data relating to State-wise distribution of deposits and credit of commercial banks relate to end-December 1969 only (Table 3.3). One measure of the spread of the banking facilities is the average population served by a bank office. Chandigarh had the smallest population per office (6,000) followed by Goa, Daman and Diu (7,000) and Delhi (14,000) indicating larger spread of banking facilities. Similarly, commercial banks serve comparatively smaller population per office in Gujarat (31,000), Kerala (32,000), Mysore (34,000), Tamil Nadu (35,000), Punjab (35,000) and Maharashtra (41,000). Banking facilities were not adequately spread in Union Territories of Andaman and Nicobar islands and Manipur and Tripura. In the States of Orissa, Bihar and Assam average population served by a bank office was around 1.75 lakhs. The average population served by a bank office in India was 60,000 in December 1969. With the massive branch expansion, this average came down to 49,000 by December 1970 and further to 46,000 by May 1971.

3.7 In terms of banking business (mobilisation of deposits and grant of credit) transacted, the important States were Maharashtra (23.8 per cent of deposits and 30.4 per cent of credit), West Bengal (13.8 per cent of deposits and 19.2 per cent of credit), Tamil Nadu (6.1 per cent of deposits and 11.2 per cent of credit), Gujarat (8.9 per cent of deposits and 6.2 per cent of credit) and Delhi (9.5 per cent of deposits and 5.4 per cent of credit).

Urban Orientation of Commercial Banks

3.8 However, the overall picture of these States is influenced by the fact that 5 major cities with population of over 10 lakhs (*viz.*, Ahmedabad, Bombay, Calcutta, Delhi and Madras) have a major share in bank deposits and credit. These together accounted for 14.5 per cent of number of offices, 44.2 per cent of bank deposits and 59.9 per cent of bank credit as on Decem-

ber 31, 1969 (Table 3.4). Excluding Bombay, Maharashtra's share in bank deposits dips down to 5.1 per cent and that of bank credit to 4.2 per cent. Similarly, if Calcutta is excluded, West Bengal's share of bank deposits goes down to 2.7 per cent and that of bank credit to a mere 0.6 per cent. Excluding Ahmedabad, the State of Gujarat has only 6.6 per cent of deposits and 3.1 per cent of credit. Excluding the Madras city, Tamil Nadu had only 3.3 per cent of deposits and 4.6 per cent of credit. Uttar Pradesh had 8.3 per cent while Mysore had 4.9 per cent and Punjab 4.5 per cent of bank deposits. Mysore had 5.0 per cent, Andhra Pradesh 4.4 per cent and Uttar Pradesh 5.1 per cent of bank credit in December 1969.

TABLE 3·4—SHARE OF MAJOR CITIES@ IN TOTAL DEPOSITS AND CREDIT (IN INDIA) OF COMMERCIAL BANKS (AS AT THE END OF DECEMBER 1969)

(Amounts in lakhs of rupees)

City	No. of Offices	Deposits		Credit		Credit-Deposit Ratio
		Amount	% *to Total*	Amount	% *to Total*	
1. Ahmedabad	119	11607	*2·2*	11674	*3·1*	100·6
2. Bombay	456	96392	*18·6*	97617	*26·2*	101·3
3. Calcutta	258	57291	*11·2*	69371	*18·6*	121·1
4. Delhi	296	49331	*9·5*	20031	*5·4*	40·6
5. Madras	178	14089	*2·7*	24766	*6·6*	175·8
Total	**1307**	**228710**	*44·2*	**223459**	*59·9*	**97·7**
All India Total ..	**9007**	**517273**	*100·0*	**372902**	*100·0*	**72·1**

@ Cities with population of over 10,00,000 according to 1961 census.
Source : Statistical Tables Relating to Banks in India, 1969.

3.9 Table 3.5 shows the population group-wise distribution of offices of commercial and co-operative banks as at the end of 1969. Commercial bank offices were concentrated in places with population of over 1 lakh (35.7 per cent) and places with population of 10,000 to 50,000 (38.9 per cent), while offices of co-operative banks were concentrated in places with population of 10,000 and 50,000 (31.7 per cent), those with population of 5,000 to 10,000 (18.8 per cent) and those with population below 5,000 (24.0 per cent). Places with population of 10,000 and 50,000 were relatively well served by both commercial and co-operative banks.

3.10 As a result of a determined effort after the nationalisation of major commercial banks to extend the geographic coverage by commercial banks, rural centres, with a population upto 10,000 accounted for 35.5 per cent of total offices as on May 31, 1971 as against 22.4 per cent as on June 30, 1969. Semi-urban centres with population between 10,000 and 1 lakh

TABLE 3·5—DISTRIBUTION BY POPULATION† OF OFFICES OF COMMERCIAL AND CO-OPERATIVE BANKS

(As at the end of 1969)

Population group	No. of places with banking offices* (commercial and co-operative banks)	No. of offices of commercial and co-operative banks	No. of places with commercial bank offices	Number of offices of					Co-operative Banks‡	
				Scheduled commercial banks	14 Nationalised banks	Public sector banks	Private sector banks	Non-scheduled banks	No. of offices	No. of places
1	2	3	4	5	6	7	8	9	10	11
10,00,000 and over	5 (0·1)	1481 (11·2)	5 (0·1)	1311 (14·9)	917 (19·8)	1061 (14·7)	250 (15·5)	2 (1·1)	168 (4·0)	5 (0·1)
5,00,000 to 10,00,000	8 (0·2)	526 (4·0)	8 (0·2)	433 (4·9)	282 (6·1)	360 (5·0)	73 (4·5)	—	93 (2·2)	8 (0·3)
2,00,000 to 5,00,000	28 (0·6)	875 (6·6)	28 (0·8)	740 (8·4)	452 (9·8)	588 (8·1)	152 (9·4)	23 (12·7)	112 (2·7)	28 (0·9)
1,00,000 to 2,00,000	65 (1·3)	882 (6·7)	65 (1·8)	704 (8·0)	437 (9·5)	570 (7·9)	134 (8·3)	7 (3·9)	171 (4·1)	59 (1·9)
75,000 to 1,00,000	45 (0·9)	453 (3·4)	45 (1·3)	343 (3·9)	198 (4·3)	274 (3·8)	69 (4·3)	2 (1·1)	108 (2·6)	40 (1·3)
50,000 to 75,000	86 (1·8)	605 (4·6)	86 (2·4)	456 (5·2)	245 (5·3)	348 (4·8)	108 (6·7)	11 (6·1)	138 (3·3)	77 (2·5)
25,000 to 50,000	332 (6·8)	1444 (11·0)	330 (9·2)	1001 (11·3)	503 (10·9)	834 (11·5)	167 (10·4)	18 (9·9)	425 (10·2)	264 (8·5)
10,000 to 25,000	1005 (20·7)	2568 (19·5)	975 (27·3)	1605 (18·2)	582 (12·6)	1304 (18·1)	301 (18·7)	64 (35·4)	899 (21·5)	680 (21·8)
5,000 to 10,000	1086 (22·4)	1825 (13·8)	857 (24·0)	1025 (11·6)	358 (7·8)	875 (12·1)	150 (9·3)	13 (7·2)	787 (18·8)	700 (22·4)
Below 5,000	1347 (27·7)	1630 (12·4)	568 (15·9)	608 (6·8)	252 (5·5)	515 (7·1)	93 (5·8)	20 (11·0)	1002 (24·0)	987 (31·6)
Unclassified	851 (17·5)	896 (6·8)	606 (17·0)	600 (6·8)	389 (8·4)	488 (6·8)	112 (7·0)	21 (11·6)	275 (6·6)	271 (8·7)
Total	**4858** (100·0)	**13185** (100·0)	**3573** (100·0)	**8826** (100·0)	**4615** (100·0)	**7217** (100·0)	**1609** (100·0)	**181** (100·0)	**4178** (100·0)	**3119** (100·0)

Figures in brackets are percentages to totals.

† According to 1961 census.

* Figures in columns 4 and 11 will not add up to those in column 2 as there are some places which have both commercial bank as well as co-operative bank offices.

‡ Includes State co-operative banks, central co-operative banks, industrial co-operative banks, land development banks and urban co-operative banks with capital and reserves of Rs 1 lakh and above.

Source : Statistical Tables Relating to Banks in India, 1969.

accounted for 35.7 per cent of offices, urban centres with population between 1 lakh and 10 lakhs accounted for 14.7 per cent of offices. Metropolitan centres and Port towns had 16.1 per cent of bank offices.

STRUCTURE OF CO-OPERATIVE BANKS

3.11 The existing co-operative credit structure (as at the end of June 1970) is shown in the Chart 3.I. The co-operative credit structure for short-term and medium-term credit is a three-tier federal one with a State co-operative bank at the apex level in each State, the central co-operative bank at the district level and the primary credit societies at the base—agricultural credit societies in the villages and urban banks and other non-agricultural credit societies mainly in towns and cities. In addition to these, there are active grain banks, which function as primary societies in nine States.

3.12. The long-term credit needs of the agricultural sector are met by land mortgage banks. Originally they were established to relieve the agriculturist of the burden of indebtedness. They have reoriented their loan policies. As they now give priority to development needs, *e.g.*, provision of equipment like pumpsets, tractors and machinery and land improvement in the form of levelling, bunding, reclamation of land, fencing, digging up new wells and repairs to old wells, they are now called land development banks. The structure is a two-tier one, with central land development bank at the State level and primary banks at taluka levels (as in Tamil Nadu and Andhra Pradesh) or district levels (as in Maharashtra and Mysore). In Bihar, Gujarat, Jammu & Kashmir and Uttar Pradesh, the structure is unitary, the apex land development bank operating directly through its branches. Ten out of nineteen central land development banks were formed during and after the Second Five-Year Plan. The central land development banks raise their resources by floating debentures guaranteed by Government. These debentures are declared as trustee securities. With the interim finance (short-term accommodation) from the State Government or the State Bank of India and other commercial banks or the State co-operative banks, they grant loans to cultivators against the security of mortgage of immovable property. After sufficient mortgages are accumulated they float debentures which are secured by mortgages.

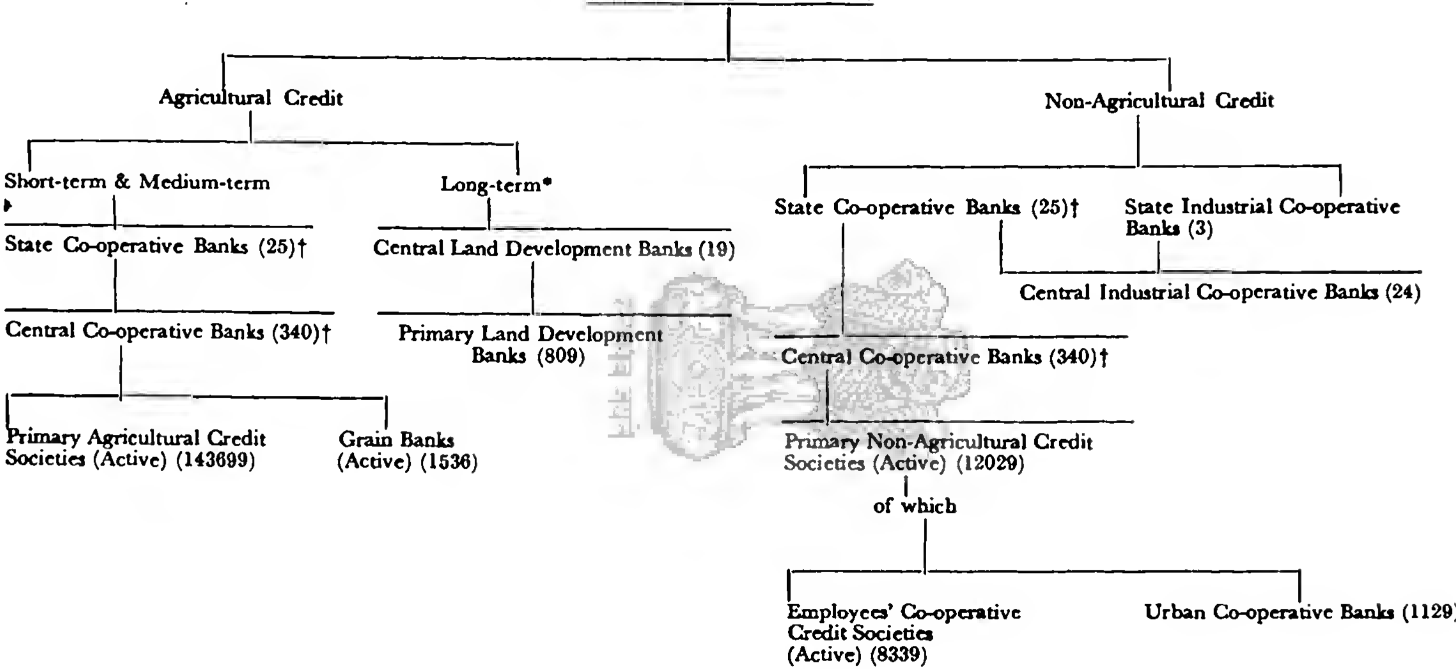
Urban Co-operative Banks

3.13 Urban co-operative banks are more akin to commercial banks in their operations. The term 'urban co-operative bank' has not been uniformly defined. In most States, no clear definition of an urban co-operative bank has been made. In Maharashtra, however, only those urban credit societies are allowed to use the word 'bank' in their names which do banking business, as defined in Section 277F of the Indian Companies Act, 1913, or Section 5 (b) of the Banking Regulation Act, 1949, and have a

CHART 3·1

CO-OPERATIVE CREDIT STRUCTURE

(As at end of June 30, 1970)



Figures in brackets indicate number of institutions.

† State co-operative banks (also referred to as apex co-operative banks) and the central co-operative banks under Agricultural and Non-Agricultural credit are the same.

* In Bihar, Gujarat, Jammu & Kashmir and Uttar Pradesh the structure is unitary. The Central Land Development Banks are operating directly through their branches.

This chart has been adapted from that in the Report of the National Credit Council Study Group on Organisational Framework for the Implementation of Social Objectives.

paid-up share capital of not less than Rs. 20,000. An urban co-operative bank is normally restricted under its bye-laws to confine its operations to the municipal area or a town. More than one urban co-operative bank may function in the same town or area, because no clear demarcation of the area of operation is made within the town. Normally persons living in urban areas, drawn from certain classes like traders, merchants, professional and salaried classes are members of urban co-operative banks. Some urban co-operative banks also admit firms and local authorities as members to a limited extent. In some banks, there is a provision for admitting only individuals as members ; in practice, these banks generally meet the needs of particular types or groups of members depending on their particular trade, profession, locality and community. These banks generally accept current, savings and fixed deposits although fixed deposits form the major portion of their total deposits.

Industrial Co-operative Banks

3.14 In a few States there exist industrial co-operative banks operating at the State or district levels which cater to the credit needs of industrial co-operatives. Their resources are very meagre and with the exception of a few banks they have generally not been able to make a significant impact.

Geographical Spread of the Co-operative Credit Movement

3.15 In the co-operative system, State and central co-operative banks and urban banks are important from the point of view of geographical coverage. Of these three, again, the central banks account for a major part of geographical coverage in the districts. Their performance is examined in detail in Chapter 8. (The land development banks which mainly provide long-term agricultural credit are not discussed from the point of view of geographical coverage). The growth and development and the present position of the State and central co-operative banks and primary agricultural credit societies are discussed in the previous chapter. The State co-operative banks operate mainly in the cities where they are located. Their branches, if any, are also generally located in the same cities as their head offices.

3.16 The urban banks, which operate mainly in cities and towns numbered 1,129, as at the end of June 1970. Their position and problems are discussed separately in Chapter 10. Of the total urban banks, 664 have been brought under the purview of the Banking Regulation Act, 1949. (In these cases, the share capital and reserves exceeded Rs. 1 lakh each.) These are mainly concentrated in Maharashtra (189), Gujarat and Mysore (121 each) and Tamil Nadu (100). Their branches are reported to be around 220 as at the end of June 1970.

Comparison of Important Organisational Aspects of Commercial and Co-operative Banks

Functional Specialization

3.17 While both types of banks perform the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities, the range of services offered by commercial banks is much wider and the degree of product differentiation in each main type of service much greater. In particular, as a result of historical factors, there are certain differences between the credit operations of the commercial and the co-operative banks. Commercial banks have been mainly concerned with short-term and to a lesser extent, medium-term financing of non-agricultural activities like industry, trade and commerce. Co-operative banks (with the exception of urban co-operative banks) have, by and large, been concerned with agricultural finance and to a much smaller extent the financing of industrial co-operatives.

3.18 There has also been a marked difference in their orientation. Commercial banks are largely urban-oriented and the co-operative banks are designed mainly to cater to the needs of rural areas and the small borrowers in the urban sector.

Organizational Structures of the Two Systems

3.19 The organisational structure of commercial banks is unitary—they operate through their branches spread over mainly in urban and semi-urban areas. Each bank is an organic whole with close ties between the head office and the branches, management emanating from the top.

3.20 On the other hand, co-operatives providing short and medium-term credit for agriculture are organised on a federal basis—three-tier structure in most States. Those that provide long-term agricultural credit are organized on a two-tier basis in some States. Each institution in each tier is a separate entity with definite jurisdiction and has an independent board of management. There is considerable weakness in the execution of decisions as there is no recognised chain of command as between the various tiers.

3.21 Urban co-operative banks which finance non-agricultural activities, however, are not a part of the three-tier structure ; they mainly depend on their own resources. On the whole, they are banks organized on co-operative lines for securing the benefits of Co-operative Laws to their members.

Control, Audit and Supervision

3.22 Commercial banks are subject to the control of the Reserve Bank of India as prescribed under the Banking Regulation Act. Public sector banks

are subject to additional control of the Central Government. Co-operative banks, on the other hand, have been subject primarily to the control of the State Governments under the Co-operative Societies Act and only to a lesser extent by the Reserve Bank of India under the Banking Regulation Act. Besides strict internal audit, commercial banks have registered auditors as external auditors. The powers of audit, supervision and periodical inspection of the co-operative banks vest in the Co-operative Department of the State. The Reserve Bank of India inspects co-operative banks under the Banking Regulation Act, but it does not inspect primary co-operative societies except on a sample basis. On the whole, the audit both internal and external and supervision of commercial banks by Reserve Bank of India tends to be more effective.

Resource Base

3.23 In the case of commercial banks, resources for lending are derived mainly from deposits from the public. Borrowings from the Reserve Bank of India are only marginal in volume intended to meet seasonal requirements. Commercial banks do not have to maintain any ratio between owned funds and total borrowings as co-operatives have to do.

3.24 Co-operative banks, on the other hand, derive resources for lending, in a substantial measure, by way of borrowings from the Reserve Bank of India at concessional rates. The maximum borrowing power of co-operative banks is linked to their owned funds. On the whole, except the urban co-operative banks, the co-operative banks are less dependent on deposit mobilisation as compared to commercial banks.

Liquidity Requirements of Commercial and Co-operative Banks

3.25 Commercial banks have to maintain certain minimum ratios between their balances with the Reserve Bank, other cash and investments in approved securities and their demand and time liabilities. Though originally conceived as safeguards to the interests of depositors, these ratios have a wider bearing. These ratios or liquidity requirements are an important instrument of credit control. They also act as supports to public borrowing programme. Co-operatives also maintain cash reserves and liquid assets in relation to deposits.

Deposit Mobilisation

3.26 Commercial banks collect deposits from borrowers as well as non-borrowers in the area they are located. Deposits collected in one area are not necessarily lent in that area only. They may be shifted to commercial and business centres. Deposits raised by apex and central co-operative banks are used for financing agricultural activities locally. The primary

credit societies, which are in direct touch with borrowers, generally collect only small amounts by way of deposits. The deposits of primary credit societies are mainly those of the borrowers.

Investment of Surplus Resources

3.27 Commercial banks have large discretion regarding investment policy, after adhering to the prescribed ratio between investment in approved Government securities and deposit liabilities. In the case of co-operative banks, not much discretion is left to the management. The Registrar of Co-operative Societies lays down rules for investment of surplus resources as well as reserves. The Reserve Bank also lays down in certain cases that at least a given proportion of resources should be lent for agriculture.

Lending Operations—Flexibility

3.28 Within the overall general and selective credit control prescribed by the Reserve Bank of India, commercial banks enjoy considerable discretionary powers. Their loan policies are determined by their board of directors. Subject to specified ceilings, powers of granting individual loans are delegated to the branch agents. There is no formal machinery in commercial banks to keep themselves informed about credit needs of the local areas. The branch agent has to assess each loan application on its merits. The credit can be tailored according to the needs of types of borrowers. For example, there can be a choice in various types of credit among loans, overdrafts, cash credits and bills of exchange. There is some flexibility as regards security offered, period of loan, etc.

3.29 Co-operative banks have to follow the loan policy laid down by the Reserve Bank of India or the Co-operative Department. The purpose for which loans can be made, the security to be obtained for different types of loans of different sizes and the rate of interest to be charged, are fixed by the Reserve Bank of India, the Registrar of Co-operative Societies or according to bye-laws of the societies. These are uniform for the entire State/area and there is little scope for flexibility.

Interest Rates

3.30 Commercial banks are instructed to pay on deposits interest rates which are prescribed by the Reserve Bank. These deposit rates are lower than those offered by co-operative banks (which are allowed to pay $\frac{1}{4}$ to $\frac{1}{2}$ per cent more).

Influence of Borrowers

3.31 As the borrowers are members of the co-operative banks and the voting power is based on the principle of 'one man one vote', borrowers

are also controllers of the use of funds. There is a possibility of extraneous influences operating on the sanctioning of loans to affiliated units as well as on the recovery of loans.

3.32 In commercial banks, borrowers are not controllers of the lending policy. Commercial banks have their own staff to supervise the actual utilisation of loans and to ensure proper and timely repayment of principal and of interest. In a number of States, co-operatives are not suitably equipped for this purpose.

Personnel

3.33 Commercial banks can and do attract staff with better calibre as they offer better salaries and promotional avenues. Because of the generally poor resources position and limited opportunities for promotion co-operative banks are unable to employ staff of high calibre.

General Observations

3.34 These differences in organisational structure, operational policies, control mechanisms and quality of personnel have a significant bearing on the overall strength of each of the two systems. The problems of co-ordination between these two systems have to be viewed against the background of these differences. In particular it is essential to consider the measures necessary to put the weaker system on a better footing. The manner in which this should be done has been discussed in Chapters 8 to 10.

Chapter 4

A REVIEW OF SERVICES PROVIDED BY COMMERCIAL BANKS IN INDIA[1]

Introduction

4.1 In the terms of reference for the Banking Commission, term (*iii*) requires the Banking Commission to make suggestions for improving the range and the quality of services provided by the banking system. This term reads as follows :

> "To make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks."

In this chapter we present a brief review of the services currently rendered by commercial banks in India as a background to the discussions in the subsequent chapters as to the manner in which they can be improved.

Permitted Banking Activities

4.2 First, the legal position as to the services permissible for commercial banks in India may be stated. The traditional functions covered by the term 'banking' are defined in Section 5(*b*) of the Banking Regulation Act, 1949 as follows :

> "Banking means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

Section 6(1) of the Banking Regulation Act, 1949 elaborates on this and gives a list of permissible activities for banks which include, in addition to raising deposits and the grant of secured and unsecured advances, various ancillary services. This list is as follows :

(1) the borrowing, raising or taking up of money, the lending or advancing of money either upon or without security ;

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[1] The co-operative banks also provide some of the banking services rendered by commercial banks but none of the co-operative banks provide the same wide range of banking services as are generally provided by commercial banks. Also see Chapters 8 to 10.

(2) the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, 'hoondees',[1] promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not ;

(3) the granting and issuing of letters of credit, traveller's cheques and circular notes ;

(4) the buying, selling and dealing in bullion and species ;

(5) the buying and selling of foreign exchange including foreign bank notes ;

(6) the acquiring, holding, issuing on commission, underwriting and dealing in stocks, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds ;

(7) the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances ;

(8) the receiving of all kinds of bonds or valuables, on deposit or for safe custody or otherwise ;

(9) the providing of safe deposit vaults ;

(10) the collecting and transmitting of money and securities ;

(11) acting as agents for any government or local authority or any other person or persons ;

(12) the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a managing agent or secretary and treasurer of a company ;

(13) contracting for public and private loans and negotiating and issuing the same ;

(14) the effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stocks, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue ;

(15) carrying on and transacting every kind of guarantee and indemnity business ;

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[1] The terms 'hoondee' and 'hundi' are the same. The word is explained in Chapter 18.

(16) managing, selling and realising any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims ;

(17) acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security ;

(18) undertaking and executing trusts ;

(19) undertaking the administration of estates as executor, trustee or otherwise.

Activities Which are Not Allowed

4.3 Commercial banks are not allowed to undertake activities other than those covered by these two sections of the Banking Regulation Act, 1949. While such restriction of activities of commercial banks is necessary for discouraging them from indulging in non-banking activities like trading, it has hindered the introduction of a new type of service by commercial banks, namely, equipment leasing, which is in vogue in foreign countries. Under 'equipment leasing', the bank purchases an equipment, say a tractor, and leases it to its actual users.[1] Another type of service which is not provided by commercial banks in India owing to legal difficulties is the issue of negotiable certificates of deposits. These are not covered by the Negotiable Instruments Act, 1881 and as such protection available to bankers for other negotiable instruments like cheques is not available in respect of these certificates.[2]

Services Provided by Commercial Banks in India

4.4 Commercial banks in India, like their counterparts all the world over, have been performing for their customers—and in some instances also for the public at large—most of these activities. The range of services offered differs from bank to bank, depending mainly on the size and type of banks; but the acceptance of deposits from the public and provision of credit form the mainstay of the banking business in India. The services offered by commercial banks can be classified into (*i*) services to depositors, (*ii*) services to borrowers for providing credit to them, and (*iii*) ancillary services. A list of various bank services usually provided by banks in India is given in Annexure 4.I. The traditional services mainly relate to (*i*) maintenance of different types of deposit accounts; (*ii*) grant of advances through cash credit, overdraft and loan accounts and through purchasing/discounting demand and usance bills; (*iii*) collection of cheques, bills and other instruments (inland

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[1] For further discussion, refer to paragraph 19·98 of Chapter 19 on 'Banking Regulation'.
[2] Also see paragraph 21·47 of Chapter 21 on 'Other Laws Affecting Banking'.

and foreign); (*iv*) issue of performance and financial guarantees; (*v*) provision of remittance facilities by issue of drafts, mail transfers, and telegraphic transfers ; (*vi*) provision of facilities of safe deposit and safe custody; and (*vii*) purchase and sale of securities.

4.5 With the accent on deposit mobilisation and grant of credit to weaker sectors of society during recent years, banks have introduced a number of new schemes. Besides these, banks have also introduced certain services such as credit cards, gift cheques, emergency vouchers, participation certificates, for the convenience of customers. Of these various new services, the schemes relating to deposit mobilisation have been described in Chapter 6 on 'Functional Coverage—I: Deposit Mobilisation by Banks'. A brief account of the other new services is given in the succeeding paragraphs.

Personal Loan Scheme

4.6 In the last decade, a few major banks in India have introduced a new facility, namely, the personal loan scheme, or the instalment loan scheme, the purpose of which is to offer to individuals, either employed or in business and having a steady income, a convenient way to borrow money from banks to purchase durable goods, such as radios, refrigerators and sewing machines which they may not be in a position to purchase outright. The personal loan system is specially designed to meet the needs of the salary and wage earners group in receipt of modest but regular income. These are clean loans and banks keep a lien on the goods and reserve the right to seize them if the borrower fails to fulfil his part of the contract. Default in payment is not a criminal offence in India; it is only a cause for civil action and though banks charge a penalty on overdue instalments, the possibility of a number of defaults in repayment of instalments cannot be ruled out. The scheme has not been introduced on an extensive scale in India for the above reason and also as the scope for this service is relatively limited because of the low level of income and the limited demand for durable consumer goods. However, in the years to come as the general standard of living improves, at least the major banks may be in a position to popularise this service.[1]

Loan Participation

4.7 Some of the larger borrowers are financed by more than one institution on a participation basis, either because the amount involved is very large and beyond the resources of a single institution or because the amount is beyond what an institution would like to risk on a single borrower. In July 1970, one of the foreign banks introduced Participation Certificates (PC)—a new credit instrument—by which it sells to a third party a loan it has already made to one of its customers. PC is a deed of transfer legally trans-

[1] Also see Chapter 16.

ferring title of the customers' hypothecated current and moveable assets. It indicates that the bank undertakes to repay the loan directly on maturity; the participator need not, therefore, look to the customer. The minimum amount of a PC was fixed at Rs. 1 lakh; it has three tenures, 30 days, 60 days and 90 days. Stamp duty is borne by the bank. Subsequently, some of the Indian banks also introduced similar participation schemes. Participation Certificates introduced by some commercial banks in India are unrelated to particular maturities of term loans and are of relatively short maturities. The Study Group on Term Loan Participation Agreement (Ramanujam Committee) has recommended in March 1971, a scheme for loan participation based on promissory notes of the borrower or one based on Participation Certificates similar to those issued by International Finance Corporation (Washington).

Schemes for Financing Small Industrial Units[1]

4.8 Banks grant term loans to small scale industrial units for expansion, modernisation, renovation and also provide them with working capital finance. Besides industrial units, loans are also granted to technocrats, technologists, technicians and entrepreneurs to set up small scale industrial units. Banks also give finance for promotion of industrial estates—for purchase of land and construction of sheds.

Schemes for Financing of Agriculture

4.9 Banks have introduced a number of schemes to help agriculturists. They provide short-term loans for financing seasonal agricultural operations including purchase of inputs; medium-term loans for purchase of equipment such as tractors, agricultural machinery and pump-sets, sinking of wells, repairing old wells, land improvement, etc. and long-term loans for the purchase of land and other assets of long durability. Under the 'area approach' some banks have adopted certain villages for providing credit facilities for all productive purposes in the villages adopted. A few banks have also introduced Farm Graduate Schemes, under which financial assistance is provided to agricultural graduates, to enable them to acquire land and become progressive agriculturists. Many of the banks have also launched schemes for financing farm-based activities such as poultry, dairy-farming, pisciculture,

hypothecation of the vehicle concerned. Loans are also granted to self-employed persons, *i.e.*, professionals like doctors, lawyers, architects, etc., to start or expand trade or vocation, to develop business and for buying equipment, tools, furniture, etc. Banks also grant loans to retail traders to acquire and hold stocks or for repairing/furnishing/renovating shops or for purchase of ancillary equipment. Schemes have also been introduced by banks for providing finance to unemployed graduates for purposes such as running

cheques and salary/pension bills drawn on the Accountant General's office. Collection of National Defence Fund contributions and occasional donations towards noble causes is also undertaken by banks. A few banks also undertake to distribute State lottery tickets and payment of prize money as permitted by the State Governments.

Credit Cards

4.17 A few banks in India have introduced credit cards on an experimental basis. Credit cards or 'courtesy' cards as these are sometimes called, are issued to valued constituents as identification cards. On presentation of the credit card, the constituent can encash his cheques drawn on his account at any of the offices of the bank upto a specified amount on any particular day, at any one office. Under another scheme, special cheques of specified amounts signed by the customer holding the credit card can be encashed by authorised establishment such as departmental stores which are reimbursed by the bank in respect of the cheques.

Travellers Cheques

4.18 Travel within as well as outside India has increased considerably of late and a few banks in India have seized this opportunity and started providing customers with the facility of travellers cheques so as to avoid the risk of loss or inconvenience in having to carry large amount of cash while travelling. These cheques are issued in suitable denominations and are encashable at any office of the bank.

Travel Agency Work

4.19 Another facility closely associated with the travel habit is the travel agency work, *i.e.*, securing of passage, accommodation in hotels, obtaining details of passenger sailings and general travel information from travel agents for their customers as also the furnishing of introduction to them entitling them to the courtesies of their correspondents abroad. Only a few commercial banks in India provide this service. Certain banks undertake to inform Railway/State Transport timings to their depositors. They also arrange reservation of tickets for a small charge, for their customers only.

Gift Cheques

4.20 One of the new devices adopted by a few banks to attract customers is the issue of gift cheques, artistically designed in attractive folders and covers. The purchaser of a gift cheque need not be an account holder with that bank or with any other bank to avail of this service. The cheque is collectable at par at all the offices of the issuing bank in India.

Lock-Box and Night Safe Service

4.21 A few banks have been also experimenting with the 'Lock-Box Service' at selected centres, which enables the customers, particularly the

traders, to lodge the cheques and other remittances in a box kept at the branch of a bank after office hours, to be collected by the bank the next day and the necessary entries passed. It obviates the need for the customers to go to the bank during the customers' own office hours and thus saves time for them. Some attempts are also made at selected branches to offer night safe facilities whereby the customers, particularly the traders, can lodge their cash overnight.

Services after the Usual Banking Hours

4.22 In order to provide facilities to customers to encash their cheques for small specified amounts after usual office hours, some banks have introduced various schemes. One such scheme is known as 'Emergency Vouchers Scheme'. The vouchers which are sold free of charge are encashable at the bank's branches during office hours and at selected Burmah Shell Stations after office hours. A few banks have also started evening centres where cheques can be encashed after usual office hours. A number of banks provide morning and/or evening banking facilities in residential areas.

Other Services

4.23 Only a few banks in India provide tax assistance service to their customers. The major difficulty in extending this service appears to be its highly technical nature which involves employment of experts by banks. With a larger number of persons being covered by taxation, the demand for this service is likely to increase. Similarly, only a few banks provide executor and trustee service. Some of the banks had formed subsidiaries to undertake this business which is of a highly specialised nature. As regards standing instructions, most of the banks undertake on behalf of customers to pay insurance premia, collect interest on Government securities, pensions, pay bills, etc., but the services have not been extended to payment of rent, hotel bills, electricity bills, etc.

General Observations

4.24 The rapid expansion of banking during recent years and increase in work-load on bank branches have given rise to a number of complaints in regard to the quality of bank services. In view of the prospects of fast expansion of bank operations in future, it is necessary for banks to give attention to the streamlining of bank procedures for avoiding delays, cutting down costs, improving efficiency and increasing productivity of staff. It is also necessary to devise suitable methods for dealing with complaints from customers in order to extend the banking operations. These matters have been dealt with in Chapters 11 and 14 on 'Bank Operating Methods and Procedures' and 'Management Development in Banks'.

ANNEXURE 4-I

BANK SERVICES

Deposit Schemes Tailored for Various Types of Depositors

1. Current Account
2. Savings Account
3. Fixed or Term Deposits
4. Monthly Interest Income Deposit Schemes
5. Cash Certificates
6. Annuity or Retirement Schemes
7. Farmers' Deposit Schemes
8. Daily Savings Schemes
9. Minor's Savings Schemes
10. Marriage/Educational Savings Plan

Deposits Linked with Other Benefits

1. Insurance Linked Savings Bank Accounts
2. Housing Deposit Schemes
3. Salary Reserve Scheme

Services Provided for Depositors

1. Collection of cheques, demand drafts, bills of exchange, promissory notes, hundis, inland and foreign documentary and clean bills.

2. Purchase of local and foreign currency documentary/clean bills, negotiation of bills under inland and foreign letters of credit, advising of inland and foreign letters of credit established by branches and correspondents.

3. Carrying out standing instructions of depositors for (*a*) payment of insurance premia, (*b*) payment of subscription, (*c*) payment of certain taxes, (*d*) gift remittances, etc.

Loan Schemes Tailored for Various Types of Borrowers

1. Call Loans
2. Term Loans
3. Cash Credit
4. Overdrafts
5. Letters of Credit
6. Personal Loans for—(*a*) durable consumer goods
   (*b*) construction of residential houses
   (*c*) electrification, gas connection
7. Loan Participation
8. Loans to farmers —(*a*) Short-term
   (*b*) Medium-term
9. Loans to Small Scale Industry
10. Loans to Road Transport Operators
11. Loans to Self-employed Persons
12. Loans to Technocrats, Technologists, Technicians and Entrepreneurs
13. Loans to Retail Trade
14. Educational Loans—(*a*) Graduates & Post-graduate Courses in India
    (*b*) Higher Studies Abroad
15. Assistance for Industrial Estates

Ancillary Services

1. Guarantees—(*a*) Performance Guarantees
   (*b*) Financial Guarantees
2. Safe Custody of Deeds, Securities
3. Safe Deposit Vault
4. Purchase and Sale of Securities
5. Collection of Interest on Securities/Debentures and Dividend on Shares, Collection of Pension Bills
6. Remittance of Funds—Bank Drafts, Mail Transfers, Telegraphic Transfers to other parts of the country and to foreign countries

7. Executor and Trustees—(*a*) Executor and Trustee Under a Will, (*b*) Trustee under a Trust Deed Security Mortgage Debentures, (*c*) Trustee under a Deed of Settlement, (*d*) Trustee for Life Insurance Policies under Married Women's Property Act, 1874
8. Personal Tax Assistance, Preparing Income-Tax/Sales Tax/Wealth Tax Returns
9. Investment Facilities—Underwriting, Banker to New Issues, Guidance to Investment, Stock Exchange Assistance
10. Credit Transfers
11. Credit Cards
12. Travellers Cheques
13. Gift Cheques
14. Emergency Vouchers
15. Sale of units of the Unit Trust, national savings certificates, etc.

Chapter 5

IMPROVING THE GEOGRAPHICAL COVERAGE OF COMMERCIAL BANKS

Role of Branch Expansion

5.1 In the terms of reference for the Banking Commission, term (*ii*) requires the Banking Commission to make suggestions for improving the geographical and functional coverage of commercial banking system. This term reads as follows :

> "To make recommendations for extending the geographical and functional coverage of the commercial banking system."

In this chapter, developments since social control and nationalisation in extending the geographical coverage are reviewed.

5.2 It may be worthwhile to tracc the development of ideas regarding the role of branch expansion. The initial idea behind control of expansion of banking in the Banking Regulation Act, 1949, was to prevent unsound banking practices and misuse of public money by incompetent and dishonest bank managements. Uneven development of banking in the different areas of the country was, even at that time, engaging the attention of the Reserve Bank but promotion and building up of good business practices were considered primary.

Provisions of the Banking Regulation Act, 1949

5.3 The Banking Regulation Act, 1949, laid down the following criteria for opening new offices of banks :

> "Before granting any permission under this section, the Reserve Bank may require to be satisfied by an inspection under section 35 or otherwise as to the financial condition and history of the company, the general character of its management, the adequacy of its capital structure and earning prospects and that public interest will be served by the opening or, as the case may be, change of location, of the place of business."
>
> [Section 23(2)]

5.4 In the First Annual Report on the Trend and Progress of Banking in India for 1949, the Reserve Bank of India explained its policy on branch expansion of banks as follows :

> "The Reserve Bank has also to judge whether the opening of the new office is likely to accentuate or result in concentration of offices of banking companies in any particular area. The development of branch-banking in the country has been lopsided and whereas some areas seem to possess more than adequate banking facilities, others are undeveloped or under-developed from the point of view of banking business. At the same time it will not be in the interests of the banking system of the country to allow unsound banking companies to open places of business even in the undeveloped areas, while permitting a well-managed bank to open an office at a place which is already being served by marginal banks, may assist in the development of sound banking traditions."

Recommendations of the Rural Banking Enquiry Committee

5.5 The question of extending banking facilities to the rural areas was examined in detail at around this time by the Rural Banking Enquiry Committee (1950) which recommended that the Imperial Bank of India should extend its branches to taluka or tehsil towns where the volume of Government transactions and business potentialities warranted such extension and that the Reserve Bank of India and the Imperial Bank of India should investigate business potentialities at 274 centres in Part A and Part C States where the turnover on Government account exceeded Rs. 64 lakhs per annum. In pursuance of this recommendation, the Imperial Bank of India agreed, after discussions with the Reserve Bank of India, to open 114 offices (including conversion of 13 treasury pay offices into branches) within a period of 5 years commencing from July 1, 1951. Other commercial banks and co-operative banks were advised to endeavour to extend their branches to the taluka towns, smaller towns and semi-urban areas. For the villages, it was considered desirable that the machinery of the postal savings banks and co-operative banks should be expanded and more fully utilised.

Trends in Branch Expansion

5.6 At the end of 1951, there were 4,151 offices of commercial banks. Of these, scheduled banks accounted for 2,647 and non-scheduled banks for 1,504. In the post war period till 1954, however, there was a continuous decline in the total number of bank offices mainly due to amalgamation of smaller banks with larger banks, closure of offices of non-scheduled banks and small banks ceasing to do banking business. This was regarded as a healthy feature creating a sound base for future expansion. Scheduled banks continued to expand their branch net-work. There was, however, a tendency for all banks to open offices only in the larger towns. As against the intention to open 114 branches in 5 years, the Imperial Bank of India could open only 63 branches till June 30, 1955.

A Measure of State Intervention

5.7 Since undeveloped and under-developed areas were then considered as having a poor banking potential, there was an apprehension that new offices at such centres would be largely unremunerative for several years. The fear of the consequential losses affecting their net working results and necessitating in turn a smaller return to the respective shareholders by way of dividend made the proposals for expansion into rural areas unattractive to commercial banks. Some measure of State intervention and assumption of responsibility by Government was then considered necessary to provide credit and banking facilities in these areas. By nationalising the Imperial Bank of India, the State Bank of India was created as a banking institution with an effective machinery of branches spread all over the country. It was required to establish not less than 400 additional branches within a period of five years from July 1, 1955, particularly at district headquarters and sub-divisional centres. To cover the possibility of losses that the State Bank might incur in initial stages, an Integration and Development Fund was created out of the dividends payable to the Reserve Bank of India on such shares of the State Bank held by it as do not exceed 55 per cent of the total issued capital till the balance in the Fund reached Rupees Five Crores or more and out of contributions from the Reserve Bank of India or the Central Government from time to time.[1]

Branch Licensing Policy

5.8 Till 1956, the Reserve Bank of India followed a cautious policy for branch expansion in view of the unhealthy nature of wartime expansion and post-war and post-partition strains experienced by the economy. A liberal branch licensing policy was adopted after 1956 and all licensed banks were ordinarily permitted to open branches on a liberal basis. In July 1959, financially sound smaller banks (licensed and unlicensed) were also allowed to open branches in adjoining areas. Banks selected, by and large, only the developed areas for opening new branches. The failure of two scheduled banks, *viz.*, the Palai Central Bank and the Laxmi Bank in 1960 resulted in the adoption of a vigorous policy of weeding out the non-viable small banks and placing greater emphasis on expansion of the branch-network of the bigger banks.

5.9 At the end of 1961, there were 5,111 bank branches—of which 4,388 belonged to scheduled banks and 723 to non-scheduled banks. By March 1962, out of a total of 2,619 towns (with population of 10,000 and over), unbanked towns numbered 1,017. It may be mentioned here that it was generally the policy of the Reserve Bank of India to accord "preferential treatment to co-operative banks in the matter of opening branches in rural

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[1] *Vide* Section 36 of the State Bank of India Act, 1955.

areas and small towns to the point of discouraging commercial banks from opening branches in places already served or likely to be served by co-operative banks."[1] An important step taken in June 1962, was to classify banks for purposes of branch licensing into (*i*) all-India banks, (*ii*) large regional banks, and (*iii*) small regional banks. The geographical sphere of operations of each category was demarcated for ensuring that the financially sound smaller banks were not crowded out of existence. Banks were advised to prepare their branch expansion programmes for 3 years. An attempt was made to encourage a balanced expansion programme embracing areas devoid of banking facilities, and to avoid further overcrowding of bank offices in large metropolitan centres. It was considered desirable that attempts should be made to extend banking to attain the level of one bank office per 10,000 population.

5.10 During the first expansion programme for the 3 years ending July 1965, 606 offices were opened by the participating banks, of which 224 were at unbanked places. During the second expansion programme for the 2 years ending July 1967, 610 offices, including 219 at unbanked places were opened.

5.11 The branch licensing policy was further liberalised in the light of the discussions of the National Credit Council in March 1968. Under the third expansion programme (August 1967—December 1970), the emphasis was put on the opening of offices in the semi-urban and rural centres. In May 1968, commercial banks were asked to aim at opening at least one-third more branches than in the earlier expansion programme. At least 50 per cent of the total branches were to be in rural and semi-urban areas. Again, 50 per cent of the total should be at unbanked centres. All-India banks and regional banks were also asked to include in their programme, the opening of a reasonable number of branches—not less than 10 per cent—in undeveloped areas. Thus the Reserve Bank is following a rural-oriented branch licensing policy.[2] The Reserve Bank of India assisted the banks by carrying out surveys in selected districts of deposit potential with a view to selecting possible locations for new branches. These were, mainly intended to demonstrate the techniques that may be adopted by banks in such surveys. In November 1968, the population criterion was relaxed from one bank office per 10,000 population to one bank office per 5,000 population, in case of centres with population upto 5 lakhs. Subsequently, the National Credit Council suggested that all the unbanked towns with population of 10,000 and over should be covered in the branch expansion programme of banks.

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1 "Banking Laws (Application to Co-operative Societies) Act, 1965," *Reserve Bank of India Bulletin*, October 1965.

2 According to the circular of the Reserve Bank of India dated November 9, 1971, licences are issued to banks in the ratio of one office for urban centres and one office for metropolitan or port towns for every two offices opened after October 1, 1971 in rural or semi-urban centres in the case of banks which had more than 60 per cent of their offices in the rural or semi-urban centres ; in the case of other banks, the ratio is one office for urban centres and one office for metropolitan or port towns for every 3 offices opened in rural or semi-urban centres.

5.12 Under the three expansion programmes, the State Bank of India opened 920 branches, of which 36 per cent were situated in rural areas and 62 per cent in semi-urban areas. In addition, 203 branches were also opened outside these expansion programmes with a view to providing additional banking facilities in large towns and project areas. The foreign banks are permitted to open branches only at Delhi and port towns on a restricted scale.

5.13 On July 19, 1969, commercial banks had 8,284 officcs, of which 22.4 per cent were in rural areas, 40.1 per cent werc in semi-urban areas, 17.5 per cent were in urban centres and 20 per cent were in metropolitan centres and port towns. As at the end of June 1969, there werc 4,232 co-operative bank offices. This compares well with a total of 5,296 bank offices (2,966 scheduled commercial bank offices, 1,101 non-scheduled bank offices and 1,229 co-operative bank offices) in 1956.

5.14 Branch expansion gained momentum after thc nationalisation of major commercial banks and the introduction of the Lead Bank Schemc[1]. On May 31, 1971, there were 11,845 bank offices of which 35.5 per cent were in rural centres, 33.7 per cent in semi-urban centres, 14.7 per cent in urban centres and 16.1 per cent in metropolitan centres and port towns (Table 5.1). Average population served by a bank office has declined from 92,000 in December 1960 to 65,000 in July 1969 and further to 46,000 in May 1971.

TABLE 5·1—BRANCH EXPANSION OF COMMERCIAL BANKS

As on	Rural Centres	Semi-urban Centres	Urban Centres	Metropolitan Centres/ Port Towns	Total No.	Population per bank office
31·12·1960 ..	831 *(16·5)*	2512 *(50·0)*	1683 *(33·5)*		5026 *(100·0)*	92000*
19·7·1969 ..	1858 *(22·4)*	3323 *(40·1)*	1446 *(17·5)*	1657 *(20·0)*	8284 *(100·0)*	65000**
31·12·1970 ..	3766 *(33·6)*	3880 *(34·6)*	1673 *(15·0)*	1865 *(16·8)*	11184 *(100·0)*	49000**
31·5·1971 ..	4198 *(35·5)*	3995 *(33·7)*	1740 *(14·7)*	1912 *(16·1)*	11845 *(100·0)*	46000**

Figures in brackets are percentages to Total No.
Rural Centres .. Places with population upto 10,000.
Semi-urban Centres .. Places with population over 10,000 and upto 1 lakh.
Urban Centres .. Places with population over 1 lakh and upto 10 lakhs.
Metropolitan Centres .. Places with population over 10 lakhs.
Port Towns .. In addition to Bombay, Calcutta and Madras included in Metropolitan Centres, Cochin, Kakinada, Kandla, Mangalore, Nagapattinam, Okha, Paradeep, Pondicherry, Port Blair, Tuticorin and Visakhapatnam are included in this category.
* Based on 1961 census data.
** On the basis of estimated population.
Source : Reserve Bank of India.

[1] Discussed later in paragraphs 5·23 to 5·25.

areas and small towns to the point of discouraging commercial banks from opening branches in places already served or likely to be served by co-operative banks."[1] An important step taken in June 1962, was to classify banks for purposes of branch licensing into (*i*) all-India banks, (*ii*) large regional banks, and (*iii*) small regional banks. The geographical sphere of operations of each category was demarcated for ensuring that the financially sound smaller banks were not crowded out of existence. Banks were advised to prepare their branch expansion programmes for 3 years. An attempt was made to encourage a balanced expansion programme embracing areas devoid of banking facilities, and to avoid further overcrowding of bank offices in large metropolitan centres. It was considered desirable that attempts should be made to extend banking to attain the level of one bank office per 10,000 population.

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* Based on 1961 census data.
** On the basis of estimated population.
Source : Reserve Bank of India.

[1] Discussed later in paragraphs 5·23 to 5·25.

5.15 The coverage of villages by the banking system is even wider than the number of bank offices in rural centres suggests. About 83 per cent of villages have population below 1,000 each and as such cannot individually offer sufficient banking potential for a full-fledged branch. A rural office frequently serves other villages within a radius of 10 miles. Moreover, some banks have mobile offices which offer banking services to the villages situated on the route of a mobile van on prescribed days at predetermined timings. In September 1970, there were 6 banks, which had 18 mobile offices which covered 96 villages. Also there are satellite offices which function for one or two days in a week as adjuncts to full-time base offices.

Report of the Study Group on Organisational Framework for Implementation of Social Objectives

5.16 The nationalisation of the 14 banks imparted a new sense of urgency to the problem of expanding the geographical coverage of the banking sysem so as to provide banking facilities to the undeveloped areas expeditiously. The Study Group of the National Credit Council on 'Organisational Framework for the Implementation of Social Objectives' set up earlier under the chairmanship of the then Deputy Chairman of Planning Commission, Prof. D. R. Gadgil examined in detail the 'gaps' in the supply of credit for the economy and the manner in which they might be bridged. The Report which was published in October 1969 observed that the State sector (the State Bank, its subsidiaries and the nationalised banks) supplied 83 per cent and private sector supplied 17 per cent of the total credit. It further observed that bank credit was unevenly distributed as between different States, as between different sectors and was virtually unavailable to certain types of borrowers particularly small borrowers and the weaker sections of the community.

5.17 Apart from the uneven distribution of credit to major sectors of the economy, studies undertaken by the Study Group showed that credit extended by the banks was not widely dispersed and there were credit gaps particularly in the case of small borrowers. In the case of scheduled commercial banks, for instance, 81 per cent of total borrowing accounts were for amounts upto Rs. 10,000 but they accounted for less than 4 per cent of bank credit. The Group also found that the small banks catered to smaller borrowers more than did the big banks. The Group also noticed that consequent on Gold Control, the volume of small loans had shrunk.

5.18 According to the Study Group, village and small scale industries, which are a source of employment, were not adequately served by commercial banks.[1] Further, contribution of commercial banks to the farm sector also

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[1] The difficulties faced by the small artisans and small scale industries in obtaining credit have been reviewed in detail in Chapter 7 of this Report.

remained quite insignificant according to the Study Group. The modernisation of agriculture required, according to the Study Group, a bigger investment of capital inputs to achieve growth in both relative and absolute terms. The increased use of capital is associated with the change in the relative share of various inputs. Lack of finance prevented the use of 'capital intensive methods'. Assistance from banks was not available for modernisation of agriculture. As a result, the developmental programme launched under Community Development Projects and Intensive Agricultural Development Programmes did not show the high achievement that was expected.

Area Approach

5.19 The Study Group recommended that banks could with advantage adopt an *area approach* towards branch expansion. The idea was that individual banks should select particular areas for intensive development. Some banks, classified as all-India banks, had heavy concentration of deposits and credit in particular areas of operations—say 3 or 5 States. Large regional banks could concentrate on more intensive development of such areas jointly with the co-operative banks functioning in that area. The large banks and medium-sized banks are well placed to 'adopt' areas in their own or contiguous territories with a view to increasing banking facilities. In each district, one or two nationalised commercial banks in addition to the State Bank of India should take a leading part in banking development.

5.20 The close involvement of a bank with a particular area, the Study Group felt, was calculated not only to expand its efforts at deposit mobilisation but equally also to expand its area of finance to agriculture and small industries. Each bank should take the Lead bank-role, *i.e.*, undertake the responsibility for intensively developing certain areas chosen with regard to their existing branch locational pattern. Individual banks, the Study Group suggested, could make a detailed survey of the area of their operation and the potential in that area for economic growth with a view to evolving schemes to accelerate their involvement in their respective areas. In the course of time, the whole country, according to the Study Group, could be served by a well-knit system of commercial and co-operative banking. Regional banks, according to the Study Group, could extend in areas where they already had a net work of branches. This, the Study Group had felt, would make branch supervision and guidance effective.

5.21 Another aspect was the formulation of dynamic relationships between commercial banks and co-operative credit institutions and between short and long-term lending institutions and Government machinery at district level. It also envisaged integration of credit and the banking business with other activities. The Lead bank was expected to induce the local enterprise in agriculture and small scale industries to improve its productive efficiency. Credit institutions were expected to work together with institu-

tions looking after the supply of equipment, technical assistance, raw material allocation and marketing. By identifying the major bottlenecks in the development of the district, the Lead bank could induce the appropriate agencies to take remedial action.

Report of the Committee of Bankers

5.22 Since commercial banks were now expected to extend their geographical coverage to rural areas and their functional coverage to agricultural credit and it was necessary to co-ordinate the activities of the commercial and co-operative banks, particularly relating to branch expansion, a Committee of Bankers was appointed by the Reserve Bank of India in August 1969 under the chairmanship of F.K.F. Nariman. This Committee was entrusted with evolving a co-ordinated programme for branch expansion to ensure adequate banking facilities in the under-banked districts of the country. It generally adopted the 'area approach' advocated by the Study Group referred to earlier and recommended a Lead Bank Scheme under which banks could be allotted specific districts, where they would take the lead in surveying the potential for banking development, in extending branch banking after identifying growth centres and in extending credit facilities after locating viable and potentially viable propositions and mobilising deposits out of rising levels of income.

The Lead Bank Scheme

5.23 On the basis of the recommendations of the Study Group of the National Credit Council and the Lead Bank Scheme suggested by the Nariman Committee, the Reserve Bank of India modified and finalised towards the close of 1969, the Lead Bank Scheme for the State Bank of India and its subsidiaries, 14 nationalised banks and 2 private sector banks.[1] Under the Scheme all the 336 districts in the country (with the exception of the metropolitan areas of Bombay, Calcutta and Madras and Union Territories of Chandigarh, Delhi and Goa) were distributed among the major scheduled banks, mostly in the public sector, to play the 'lead role'. Various criteria adopted for allotment of districts were: the size of the bank and the adequacy of its resources for handling the volume of work, contiguity of districts so that 'clusters' of lead districts could emerge, the regional orientation of banks, the desirability for each State to have more than one Lead bank operating in the territory and to the extent possible for each bank to operate in more than one State.

5.24 Under the Lead role, the banks were expected to act as consortium leaders to bring about a co-ordination of co-operative, commercial banking and other financial institutions in their respective districts in the interest of lead district development. They were to maintain liaison with district authorities. The Lead banks were asked to conduct 'quick and impres-

[1] One more private sector bank was later allotted three talukas in two districts.

sionist' survey of the Lead districts with a view to identifying unbanked centres where bank branches could be located and to prepare a phased programme for branch expansion in the district. A common *proforma* was devised for collecting basic economic data about the district. On the basis of these surveys, Lead banks are expected to estimate the deposit potential and the credit gaps, so that steps could be taken to tap the deposit potential and fill the credit gaps by preparing a phased programme to meet these by supplanting the non-institutional moneylender type of credit-purveyors. The work of identifying centres for branch expansion which was to be over by the middle of 1971 is, however, still continuing.

5.25 The unbanked centres selected in the course of Lead bank surveys were allotted among banks (including the concerned Lead bank), operating in the region, at meetings of banks specially convened for the purpose. The emphasis for branch location shifted 'from the suitability of the Centre' approach to need of the economy of the district as a whole. The main purpose was to gear banking development to the needs of the local economy.

An Appraisal of the Lead Bank Scheme

5.26 The Lead Bank Scheme has been in operation for nearly two years. This is perhaps, too short a span of time for a scheme of this magnitude to make a really significant impact. The performance of the Lead banks in opening offices in their Lead districts between January 1, 1970 and May 30, 1971 is shown in Table 5.2. Of the 2,575 offices opened by the Lead banks between January 1970 and May 1971, only 1,127 or 43.8 per cent were located in the Lead districts allotted to them. It is, however, not possible to draw any firm conclusion as to the impact of the 'Lead bank' scheme on the pattern of branch expansion on the basis of these data as the actual pattern of branch distribution appears to have been largely conditioned by the opening of offices on the basis of licences for branch expansion granted in the preceding period and which, therefore, were in the pipe-line, at the time the Lead Bank Scheme commenced. Roughly one-fifth of the offices were opened in the under-banked districts.

5.27 It is worthwhile considering the difficulties the scheme has had to face. An article 'The Lead Bank Scheme: Progress and Perspective' in the November 1970 issue of the Reserve Bank of India Bulletin states that there was an initial inadequate understanding or in some quarters, even serious misunderstanding of the scope and objectives of the Lead Bank Scheme. "There was much misunderstanding about the purpose of the surveys not to mention the functions of leadership in a district. In the minds of bankers, the Lead Bank Scheme had obviously not taken a distinct operational shape".[1]

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[1] 'The Lead Bank Scheme : Progress and Perspective', *Reserve Bank of India Bulletin*, November 1970, p. 1918.

TABLE 5·2—PERFORMANCE OF LEAD BANKS IN OPENING OFFICES IN THEIR LEAD DISTRICTS SINCE JANUARY 1, 1970 TO MAY 31, 1971

Sr. No.	Name of bank	No. of districts allotted under the Lead Bank Scheme	No. of districts in respect of which survey reports have been received	No. of Offices Opened			Out of the total number of offices opened, those opened in underbanked districts
				In Lead districts	Outside Lead districts	Total	
1	2	3	4	5	6	7	8
	Banks in Public Sector						
1.	State Bank of India Group	89 (1)	18	273	557	830	243
2.	Central Bank of India	39 (1)	14	106	192	298	82
3.	Bank of India	30	30	31	80	111	8
4.	Punjab National Bank	28 (1)	20	60	70	130	18
5.	Bank of Baroda	30	14	85	62	147	25
6.	United Commercial Bank	23 (1)	11	73	35	108	36
7.	Canara Bank	18 (1)	13	97	66	163	3
8.	United Bank of India	14	4	65	19	84	67
9.	Dena Bank	9	6	73	60	133	9
10.	Syndicate Bank	15 (1)	11	86	50	136	—
11.	Union Bank of India	5	3	22	96	118	23
12.	Allahabad Bank	11	5	18	32	50	2
13.	Indian Bank	11 (4)	4	26	19	45	—
14.	Bank of Maharashtra	4 (1)	5	53	9	62	4
15.	Indian Overseas Bank	5 (2)	2	22	35	57	—
	Banks in Private Sector						
1.	Andhra Bank Ltd.	4 (2)	2	27	20	47	8
2.	Bank of Rajasthan Ltd.	1 (1)	—	5	4	9	—
3.	Punjab & Sind Bank Ltd.	*	—	5	42	47	—
	Total	**336**	**162**	**1127**	**1448**	**2575**	**528**

Notes :—(1) Figures in brackets indicate the number of districts allotted jointly to two banks and have been included in the main figures of banks with higher resources.

(2) These include branches for which licences were granted in the earlier period and were in the pipe-line.

* Only 3 tehsils in 2 districts.

Source :—Reserve Bank of India.

5.28 In the course of its discussions the Commission found that there were two different views on the role of the Lead bank. According to one view the Lead bank's responsibilities were to conduct the district survey, identify places with potential for banking, and offer the list to all interested banks for opening branches. The Lead bank was to open branches only in those places which were not taken up by any other bank. The other view was that the Lead bank had the main responsibility to open branches in its Lead districts.

5.29 Though contiguity of districts was one of the considerations behind allotting districts among banks, it could not be fully observed in practice. In view of the disparate growth of banking in the country, large banks of an essentially all-India character were given the challenging task of developing the under-developed/under-banked areas where there were no regional banks of sufficient strength. This meant that large banks had to venture sometimes into areas where earlier they had had no foot hold whatsoever. The State Bank of India group was allotted the largest number of strategic and difficult districts all over the country; the Central Bank of India was given clusters in Madhya Pradesh and Bihar, the Bank of India in Bihar, Orissa and eastern Uttar Pradesh and the Bank of Baroda in Rajasthan and eastern Uttar Pradesh. Some of the medium-sized regional banks were given clusters of districts far removed from their base of operations, *e.g.*, some districts in Uttar Pradesh and Haryana were allotted to the Canara Bank, the Syndicate Bank and the Union Bank. It was thought that this would help dissemination of the available experience and expertise gained by these mainly regional banks.

5.30 However, it appears that this dispersal created a lot of operational difficulties for the banks concerned. The initial policy frame was expected to be prepared on the basis of available data and a 'personal feel' for local problems and deposit potential. It has obviously proved difficult at least for some banks to develop the 'personal feel' in what has been to them a relatively less known area. Recruitment of new staff and posting of the existing staff in far-flung areas have presented their own problems. Lack of knowledge of the local language, differences in customs, aptitudes and attitudes, etc., are some of the other handicaps for regional banks which have Lead districts far from their base of operations. Supervison, control and guidance by the head office become difficult in such cases.

5.31 From this point of view it is necessary that banks should not be allocated 'Lead' districts which are away from their principal area of operation. As far as possible, regions with which a bank is familiar should be the appropriate area for its playing the 'Lead' role. It is necessary that attention should be given to the proper selection and development of personnel, who are chosen to operate on behalf of the Lead bank in a Lead district.

5.32 Yet another aspect of the Lead Bank Scheme in its present form which requires consideration is that in allocating districts to the banks the size of a bank was regarded as an important criterion. There are, however, considerable differences between banks as regards their managerial resources and operational efficiency ; in particular the size of a bank which is the result, among other things, of various historical factors is not necessarily an index of its current operational efficiency. Allocating Lead districts to banks without taking into account these factors is, therefore, likely to place many districts at a disadvantage. Considerable care, therefore, needs to be exercised in this matter.[1]

5.33 A major problem faced by the 'Lead banks' was in regard to the district surveys. Conducting surveys of the type contemplated by the Study Group of the National Credit Council is a task which requires an organisation well versed in modern techniques of designing techno-economic surveys, carrying out the field work and the work of analysis and interpretation of the data. Very few banks in India are so equipped.[2] Moreover, even in the case of the banks which have economic or statistical departments which can organise such surveys the size of the department is not large enough to enable them to undertake surveys in all the Lead districts allocated to them within a short period of time for such surveys properly conducted are time-consuming. Actually it would be a waste of resources for banks to maintain such economic or statistical departments of such a large scale unless they can find some survey work or the other on a continuous basis.

5.34 Such organisational questions apart, there is the more important question as to whether the individual Lead banks are the appropriate agency for conducting detailed techno-economic surveys district by district and whether this should not be the proper responsibility of the Government. Because, if the surveys are to be useful from the point of view of comprehensive planning of credit at the district level, then they have to be closely associated with planning at the district level. Credit planning can proceed only in the framework of planned targets of investment and output. Its objective is to ensure that the credit resources of the country are allocated in the light of these targets. But it is the job of the planning authorities to establish the targets taking into account the availability of both the finance as well as the physical resources. Banks can advise the planning authorities on what resources they can mobilise and take action to ensure that, in their day to day operations of financing the various sectors of the economy, the plan is adhered to.

5.35 As far as the limited question of locating branches of banks in the Lead districts is concerned, the pertinent question to ask is—Are the

1 Also see Chapter 15 on Restructuring of the Banking System, Paragraph 15·53.

2 It has been noticed that the quality of the reports on the surveys conducted by the lead banks varies considerably.

Lead bank district surveys really necessary for planning branch expansion in the coming five years? If the annual increase in branches is 2,500, of which 500 are in large towns and cities, the average number of new branches per district per year will be 7 to 8. In most cases it should be possible to locate these without waiting for a detailed survey. This is not an argument against the surveys, but only against unnecessary waiting for surveys before taking action.

5.36 At the operational stage, there is yet another difficulty in a Lead bank becoming the co-ordinating agency for commercial and co-operative banks, other short and long-term credit and financial institutions and the district authorities in the State. The Lead bank officer in any district has no power over other banks or other financial institutions or district or local authorities. Nor is it incumbent on other institutions (other than the Lead bank) to approach the Lead Bank for any specific purpose. Moreover, in a far-off place, where new branches are being opened, a comparatively junior officer may be posted by the Lead bank. Officers in other banks, if they are senior, would not like to work under the direction of the junior officer from the Lead bank. These can often act as undesirable, but none-the-less real, obstacles to the emergence of the Lead role which the Lead banks are expected to play.

5.37 To sum up, the function of planning and the function of banking are entirely different functions. Banks have to operate in a manner conforming to the plans made by the district planning machinery. Within the framework of district planning, the Lead bank can play the part of a financial leader in providing the banking facilities to the district in co-operation with other financial agencies. Considering the difficulties at both the planning and execution stage, the District authorities—*i.e.*, the District Collector (or his equivalent) and his staff—should be in charge of district planning of which credit planning will be an integral part. Banks acting in consortium can only help in the preparation of credit plan for the particular district. Later in Chapter 9 of this Report, we have made recommendations for establishing co-ordination committees at the district level consisting of the representatives of the lending agencies and the seniormost officer of the State Government in charge of the development of the district.

5.38 Finally a word of caution is necessary as to what can be expected of the Lead banks. Extension of banking facilities in a co-ordinated manner is certainly an important part of the infrastructure needed for development of an area in combination with other infrastructural facilities like transport, communications, storage, processing and marketing facilities and so on and can make a significant difference to the economic life of an area. Where such facilities have not been adequately provided for, the Lead banks can have only a limited success.

CHAPTER 6

FUNCTIONAL COVERAGE I: DEPOSIT MOBILISATION BY BANKS

IMPORTANCE OF DEPOSIT MOBILISATION

6.1 We have reviewed in Chapter 4 some of the important ancillary services provided by banks. The present chapter reviews the work done by banks in relation to one of the two major services rendered by them, *viz.*, deposits. It is a service not only to the depositors individually, but also to the community at large.

6.2 Ever since the initiation of planned economic development in India and more particularly in recent years, a high degree of emphasis has been placed on deposit mobilisation by banks as one of the main ways in which resources for the development of the economy can be enlarged. While the importance of deposit mobilisation can hardly be overstated, in this context, there have been some misconceptions regarding the precise role of deposit mobilisation in the whole pattern and process of economic development, which need to be removed. To start with, there is the simple fact that an increasing rate of savings is essential for the increasing requirements of capital formation in a growing economy. The savings that are available at any particular time depend on the level of income and on the ratio between savings and income. Over time, it is essential that both should grow at the desired rates. Savings may be 'voluntary'—as a result of an increase in income, or an improvement in savings-income ratio, or both. Savings can be forced upon the community through taxation and budgetary surplus, deliberate deficit-induced inflation and similar other means. There is not much scope for substantial budgetary surpluses in the present conditions in India and forced savings through inflation produces undesirable distortions in income distribution and in the allocation of productive resources. In the interest of both social welfare and stable growth, it is desirable that the savings required for the planned rate of capital formation be, as far as possible, voluntary.

6.3 Savings once undertaken can be held in a number of different forms—starting with the most liquid asset, namely, currency, and going through a whole spectrum of financial and real assets. Amongst the financial assets the important ones are bank deposits, savings through the Government

small savings schemes, provident fund and life insurance contributions deposits with other financial institutions, Government securities, equities and bonds issued by or deposits with the private industries, direct loans to or deposits in the unorganised market; among the non-financial assets, the following may be mentioned, *viz.*, precious metals and jewellery, land, houses and even commodities. The distribution of an individual's savings amongst these assets depends both on his needs for liquidity, current income from them and provision for the future as well as his knowledge of the availability of the different types of assets.

6.4 The holding of savings in the form of currency makes them currently infructuous from the social standpoint and involves the constant danger of inflationary spending. Holding of savings in the form of land or precious metals or jewellery means either a competitive transfer of a nearly constant stock of assets, resulting in no new capital formation and wasting itself in a rise in the prices of the assets or a loss of foreign exchange. In the case of loans or deposits through the unorganised market, it is possible that these are used for unnecessary consumption or for speculation in goods. Even when such loans are used for productive purposes, one is not sure whether the production financed by them ranks high in the ordering of social priorities. There is also the fact that the high rates of interest in the unorganised markets discourage productive capital formation and encourage investment in inventories.

6.5 There is a strong case for allowing voluntary savings to be freely used in the direct creation (*i.e.*, by the savers themselves) of houses or productive assets or in the holding of financial assets representing creation of productive assets. The only question will be whether such use of voluntary savings is in line with the accepted planning priorities. One can, however, note that controls and regulations relating to the direct utilisation of private voluntary savings in capital formation cannot be carried very far. One can also assume that with the broad regulatory devices that are operating, the use of private voluntary savings for the purposes of direct creation of productive assets or for the acquisition of financial assets representing productive assets could be left free.

6.6 The scope for such direct productive use of voluntary savings is, however, limited in an economy in which there exists a very large number of persons, whose savings potential is low, because their incomes are very low. Further, even where high incomes are earned and the savings potential is high, such income earners tend to hold their savings mainly in currency, and to some extent in gold and jewellery, in land or in the form of loans given in the unorganised markets, *i.e.*, in forms which are infructuous or socially wasteful, on account of such factors as their ignorance about the availability of the different types of financial assets in which they can hold their savings or absence of necessary facilities to enable them to do so. Finally, there are

income earners who have the necessary knowledge and access to the facility of the organised capital market but who hold their savings in these forms to avoid payment of taxes.

6.7 The case for deposit mobilisation by banks rests firmly on this important fact. Increasing deposits with the banks will help to bring to the organised market savings that are idle, or are wasted, or are used in creating assets which are low in the scale of the plan priorities. Banks, particularly when they are owned by the Government, can be expected to use the private savings placed with them in a manner conforming to the requirements of the planned growth of the economy. It is also possible that the very existence of banks in the neighbourhood may induce additional savings from some sections of the community.

6.8 Very broadly, what the economy requires is a rapid rate of growth of income, a substantial increase in the ratio of voluntary savings to income and, on the grounds stated above, a large increase in the ratio between bank deposits and voluntary savings. An idea of the actual performance of the economy over the decade and a half of the period of planned development is given in Table 6.1. As new bank deposits constitute a rather low proportion of current savings and of current income, even a small positive change in the two ratios should have a large effect on the total. Such changes may come slowly, simply because of the operation of the economic forces, but the large and quick changes that will be required, will have to be induced by positive action by the banks for the mobilisation of deposits.

6.9 When for attainment of social objectives, priority sectors are given preferential treatment in allocation of bank credit, new income is generated in these sectors. There has been the general feeling that at least a part of it should be made to remain in the banking system, in the form of deposits. With the increased agricultural production, consequent largely on technological innovation in agriculture and income-generation in agriculture resulting therefrom, the deposit potential has arisen in rural areas. As the savings-income ratio is smaller in the rural sector than in the urban sector, a concerted effort has been and is necessary to raise the rate of savings in general and the rate of savings in the form of bank deposits in particular, especially in this sector. If this new deposit-potential is not tapped fully, there is a danger that it would be diverted into unproductive investment or into financing of non-priority sectors. Again, to the extent bank credit replaces the unorganised sector as a source of finance to hitherto neglected sectors, resources of the unorganised sector formerly used for financing these sectors are released and these have to be mopped up. .

6.10 Banks have several advantages as mobilisers of savings over other agencies. With their wide network of branches they can reach income earners throughout the country. They can offer a good choice to their

TABLE 6·1—TOTAL SAVINGS IN THE ECONOMY AND BANK DEPOSITS

(Rs. crores at current prices)

Year	Savings of				Column 2 + 3	Aggregate Deposits of Scheduled Commercial Banks	Variations over the previous year	Column 7 as percentage of column 5
	Government Sector	Domestic Corporate Sector	Household Sector	Total Savings				
	1	2	3	4	5	6	7	8
1950-51	95·9	35·0	411·0	541·9	446·0	880·6	+36·8	*8·3*
1951-52	187·0	63·6	278·8	529·4	342·4	822·1	—58·5	*—17·1*
1952-53	102·1	1·1	305·1	408·3	306·2	830·5	+ 8·4	*2·7*
1953-54	92·6	25·9	446·5	565·0	472·4	847·5	+ 17·0	*3·6*
1954-55	93·4	50·3	620·5	764·2	670·8	942·6	+ 95·1	*14·2*
1955-56	111·4	60·0	799·1	970·5	859·1	1043·2	+100·6	*11·7*
1956-57	176·7	58·5	841·2	1076·4	899·7	1130·0@@	+ 87·7	*9·7*
1957-58	156·7	18·0	623·1	797·8	641·1	1296·6@@	+165·7	*25·8*
1958-59	138·0	32·4	761·0	931·4	793·4	1391·2@@	+ 94·6	*11·9*
1959-60	202·8	57·6	841·6	1102·0	899·2	1591·5@@	+200·3	*22·3*
1960-61	239·4	106·7	1025·8	1371·9	1132·5	1556·6@@	— 34·9	*—3·1*
1961-62	348·4	111·6	922·2	1382·2	1033·8	1787·1@@	+230·5	*22·3*
1962-63	410·8	135·0	983·6	1529·4	1118·6	1974·4@@	187·3	*16·7*
1963-64	538·3	141·6	1158·8*	1838·7	1300·4	2256·3@@	+281·9	*21·7*
1964-65	535·6	92·9	1376·8*	2005·3	1469·7	2583·3	+327·0	*22·2*
1965-66	654·0	93·3	1820·4*	2567·7	1913·7	2949·8	+366·5	*19·2*

@@ Excluding P. L. 480 and P. L. 665 Deposits.

* Net financial assets have been taken from the Report on Currency & Finance, 1969-70 and physical assets from Central Statistical Organisation (C.S.O.).

Source : Reports on Currency & Finance for the respective years and Estimates of Savings in India 1960-61 to 1965-66 C.S.O.

customers of assets, *i.e.*, bank deposits, which possess different degrees of liquidity and yield income at different rates. They can collect the savings as frequently as their customers desire and in amounts convenient to them. Also they can make it possible for the customer to have the use of a good part of his long-term savings temporarily through the facility of loans against fixed deposits. Again, they can advise their customers in diversifying their holdings of financial assets in forms other than bank deposits and handle the various transactions connected with such diversification, *e.g.*, payment of insurance premia, collection of dividends, etc.

Interest Rates and Deposit Mobilisation

6.11 In addition to the existence of the institutional structure, proximity of the institutions to the depositor and the availability of varying schemes tailored to suit the liquidity and other considerations which weigh with the depositors, the return on deposits appears to be of some significance. The survey of Depositors' Appraisal of Banking Services conducted by the National Council of Applied Economic Research (NCAER) for the Commission showed that while 62 per cent of the depositors did not make any comments on interest rates on deposits, 84 per cent of those who offered comments felt that the interest rates should be raised. The same survey also showed that 59 per cent of the bank depositors, who had deposits with companies as well, were attracted by the high rates of interest offered by companies. Academic investigations including those commissioned by the Banking Commission from independent research institutions[1] indicate that the interest rate is an important determinant of the demand for deposits. In particular, the demand for time deposits shows a high elasticity with respect to the interest rate on such deposits. This is significant in the context of the practice in our country of controlling interest rates payable by banks on deposits through agreements between banks or directives from the Reserve Bank. The precise effects of such administered interest rates on the growth of bank deposits in a situation where there exists a highly competitive market for deposits with non-bank companies and other firms need to be studied carefully and a well thought-out comprehensive approach to the whole question of the structure of interest rates on deposits in the banking system and the extra-bank institutions worked out. Such a study can examine also whether the proposal to have a dual structure of interest rates—a higher rate for rural deposits and a lower one for urban deposits is likely to be useful from the point of view of mobilising deposits in the rural areas without causing any adverse side effects.

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[1] *e.g.*, (1) Khusro, A. M. and Siddharthan, N. S., "An Econometric Model of Banking in India" (Institute of Economic Growth), published separately in the Volume of Technical Studies for the Banking Commission.

(2) Gupta, G. S., "Interest Sensitiveness of Deposits in India", *Economic and Political Weekly*, November 20, 1971.

(3) Pani, P. K., "Some Aspects of Macro-modelling of Indian Economy"—Chapter V —"A macro model of Indian Economy", submitted to University of Pennsylvania, 1971.

Trend in Deposit Mobilisation of Commercial Banks

6.12 It may be interesting to review the efforts of the banking system in the field of deposit mobilisation from 1950-51. Aggregate deposits of scheduled commercial banks increased seven-fold from Rs. 835 crores at end-March 1951 to Rs. 5,896 crores at end-March 1971. At end-June 1971, deposits amounted to Rs. 6,215 crores. The per capita deposits of commercial banks went up from Rs. 24 in March 1951 to Rs. 108 in March 1971, while as a proportion to national income (at current prices) deposits were at around 17 per cent in March 1971 as against 9 per cent in March 1951.

6.13 The ratio between aggregate deposits and aggregate monetary resources, that is aggregate deposits *plus* currency, changed from 37.3 per cent in March 1951 to 55.7 per cent in March 1971. A comparatively more rapid rise in deposits compared to currency was the result of the spread of the banking habit, greater availability of banking facilities and the growing per capita money income.

6.14 It may be recalled that during the First Plan period deposit expansion was of the order of Rs. 162 crores or 18 per cent. The major expansionary factors in the Second Plan period were the accelerated Government outlays under the Plan accompanied by a larger measure of deficit financing. Over the Second Plan period deposits (adjusted for P.L. 480 and P.L. 665 deposits) rose by Rs. 513 crores—an increase of 49 per cent. The factors which helped to produce a progressive rise in deposits during the Third Plan were the increased tempo of development and increased defence expenditure resulting in a sharp rise in Government's indebtedness to the banking system. Industrial activity in the private sector too was generally buoyant and this resulted in an increase in net bank credit to the private sector. Also during this period steps were taken, following the failures of the Palai Central Bank and the Laxmi Bank in 1960, to weed out the inefficient units in the banking industry. The Deposit Insurance Corporation set up in 1962 contributed further to public confidence in the banks. Over the Third Plan period, deposits (adjusted for P.L. 480 and P.L. 665 deposits) rose by Rs. 1,393 crores or by 90 per cent. The average annual rate of expansion amounted to 18 per cent compared to 10 per cent in the Second Plan. The rate of growth in national income in the last year of the Third Plan slowed down owing to shortfalls in the agricultural production and since 1965, by the emergence of recessionary conditions. However, it picked up again in 1968. The aggregate deposits of scheduled commercial banks, after registering an increase of 16.1 per cent in 1966-67, slowed down to 12.6 per cent in 1967-68 and 12.5 per cent in 1968-69 and increased to 15.9 per cent in 1969-70 and further to 17.8 per cent in 1970-71.

6.15 Average deposits of scheduled commercial banks per office improved from Rs. 37 lakhs in 1951 to Rs. 45 lakhs in 1961 and further to

Rs. 60 lakhs in 1968 indicating an increase of over 60 per cent over the 1951 position. By April 1971 average deposits per office had fallen to Rs. 51.7 lakhs, mainly on account of a large increase in the number of offices. After the nationalisation of major commercial banks there has been a rapid expansion of bank branches. Branches take time to get going.

Various Types of Deposit Schemes of Banks

6.16 Traditionally, banks have been accepting three types of deposits from the public, namely, current deposits, savings and fixed deposits for specific periods. No interest is paid on current accounts, at the same time there are no restrictions on withdrawals from current accounts. The interest rate on savings deposits is the same as that offered by the Post Office Savings Bank, with this difference, however, that while the interest earned on deposits with the Post Office Savings Bank is free from income-tax that on savings deposits with the commercial banks is included in the free limit of Rs. 3,000 for income from specified categories of financial assets. These savings deposit accounts in the commercial banks offer liberal withdrawal facilities and the commercial banks accept standing instructions in regard to payments of bills and other remittances in repsect of them. This means that the savings account-holders get practically all the advantages of liquidity of a current account and also a small income. Interest rates on deposits were controlled by the banks themselves during October 1958 and September 1964; thereafter the banks were directed by the Reserve Bank as to the maximum or minimum rates the banks should pay for deposits of different maturities. The policy was to develop a more rational interest rates structure with adequate spreads for longer-term deposits. From September 1, 1969, interest rates for various categories of deposits have been prescribed by the Reserve Bank though the policy regarding the structure of rates remains the same. The main features of the present structure of deposit rates are as follows: (*a*) interest rate on deposits of less than 90 days tenor is quite low; (*b*) the rate for 1 year deposits equals the Bank Rate; and (*c*) the rate of interest for deposits for 2 to 3 years is 6½ per cent, for 3 to 5 years, 7 per cent and above 5 years 7½ per cent. Smaller banks are allowed to pay slightly higher rates of interest on various categories of fixed deposits.

Structure of Deposits

6.17 According to the Surveys of Ownership of Deposits with Banks, total number of deposit accounts with scheduled commercial banks increased from 32.3 lakhs in December 1951 to 183.3 lakhs in March 1969, while the amount of deposits increased from Rs. 821.6 crores to Rs. 4,516.1 crores (Table 6.2). Later data relating to number of accounts are not available. The growth rate was the highest in fixed deposits, followed by savings deposits and then by current deposits. Of the increase of Rs. 3,695 crores in deposits between December 1951 and March 1969, fixed deposits accounted for a

TABLE 6·2—TYPES OF DEPOSITS WITH SCHEDULED COMMERCIAL BANKS

As on	Types of Deposits						Total Deposits	
	Current Deposits		Savings Deposits		Fixed Deposits			
	No. of Accounts (000's)	Amount (Rs. crores)	No. of Accounts (000's)	Amount (Rs. crores)	No. of Accounts (000's)	Amount (Rs. crores)	No. of Accounts (000's)	Amount (Rs. crores)
	1	2	3	4	5	6	7	8
December 31, 1951 ..	1017 *(31·4)*	456·3 *(55·5)*	1913 *(59·1)*	135·4 *(16·5)*	304 *(9·5)*	229·9 *(28·0)*	3234	821·6
December 31, 1956 ..	1077 *(26·8)*	522·2 *(48·6)*	2465 *(61·3)*	183·6 *(17·1)*	482 *(11·9)*	369·0 *(34·3)*	4024	1074·8
April 28, 1961 ..	1301 *(21·2)*	614·4 *(36·2)*	3795 *(62·1)*	284·1 *(16·8)*	1018 *(16·7)*	795·7 *(47·0)*	6114	1694·1
March 31, 1966	1742 *(14·4)*	888·0 *(28·6)*	7884 *(65·5)*	720·3 *(23·1)*	24·30 *(20·1)*	1504·0 *(48·3)*	12056	3112·3
March 31, 1967	1817 *(13·0)*	978·1 *(27·7)*	9292 *(66·3)*	834·3 *(23·5)*	2900 *(20·6)*	1728·5 *(48·8)*	14009	3540·9
March 31, 1968	1925 *(12·0)*	1055·7 *(26·4)*	10784 *(66·9)*	964·1 *(24·2)*	3399 *(21·1)*	1974·8 *(49·4)*	16108	3994·6
March 31, 1969	2036 *(11·1)*	1149·3 *(25·5)*	12426 *(67·8)*	1111·5 *(24·6)*	3867 *(21·1)*	2255·3 *(50·0)*	18329	4516·1
Variation of 1969 over 1951								
(*a*) Absolute	+1019	+693·0	+10513	+976·1	+3563	+2025·4	+15095	+3694·5
(*b*) Percentage	*100·00*	*151·9*	*549·6*	*720·9*	*1172·0*	*880·9*	*466·7*	*410·1*

Figures in brackets are percentages to totals.

Source: Surveys of Ownership of Deposits, 1951, 1956, 1961, 1966, 1967, 1968, 1969, conducted by the Reserve Bank of India. Later data are not yet available.

major share, 54.8 per cent, followed by savings deposits for 26.4 per cent and current accounts accounted for 18.8 per cent.

6.18 There has been over the years a radical shift in the structure of deposits. Current accounts which formed 31.4 per cent of deposit accounts and 55.5 per cent[1] of amounts at end 1951 have gradually reduced in relative importance over the years and formed only 11.1 per cent of deposit accounts and 25.5 per cent of amounts in March 1969. Savings deposit accounts, which are small accounts continued to predominate in number over the period. They formed 59.1 per cent of deposit accounts in 1951 and 67.8 per cent of deposit accounts in 1969. The share of savings deposits in total amount of deposits increased from 16.5 per cent in 1951 to 24.6 per cent in 1969. The complete break-up of deposits by type is not available for the later period. By June 1971, savings deposits of scheduled commercial banks formed nearly 26 per cent of their total deposits. The share of fixed deposits in total deposit accounts shot up from 9.5 per cent in 1951 to 21.1 per cent in March 1969 and their share in total amount of deposits increased sharply from 28 per cent in 1951 to 50.0 per cent in March 1969. The proportion of savings and fixed deposits to total deposits has been rising in each of the Plan periods.

6.19 The increase since 1951 in the volume of savings deposits and fixed deposits with scheduled commercial banks reflects first of all the growth in total savings that has occurred as a result of rising incomes, and the growing tendency to economise on the holding of highly liquid forms of monetary assets such as cash and current account deposits. The development in the techniques of the monetary policy that took place over the early sixties aimed at regulating the supply of credit to what was considered essential for the requirements of production and distribution to the final user. In particular, it sought to discourage speculative inventory building. An essential component of this development was the rationalisation of the structure of interest rates paid on deposits so that there was greater differentiation between the rates for deposits for different terms, the span between the lowest and the highest rate was also widened and the structure as a whole was linked to a greater extent to the general level of the interest rates in the economy than before. At the same time banks liberalised withdrawal facilities in respect of savings deposits imparting these deposits greater liquidity. All these measures seem to have had a considerable impact on the rate of growth of deposits, particularly the savings and the fixed deposits.

6.20 The increasing use of bank money is reflected in the rate of turnover of current deposits[2] which rose from 38 in 1951 to 45 in 1966 showing a rise of 18 per cent during the period. The overall turnover rate which takes into

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1 These figures are different from those in paragraph 2·57 due to differences in classification of deposits and coverage of banks.

2 "Debits to Deposit Accounts with Banks, 1966", *Reserve Bank of India Bulletin*, March 1970.

account, limits to cash credits and overdrafts and debits thereto in addition to current deposits and their debits was 16.4 per cent in 1951 and 16.3 per cent in 1966 indicating a fall in the turnover of cash credits and overdrafts implying non-utilisation of existing limits over the years.

6.21 The turnover of current deposits was naturally higher at centres with larger population (mainly big cities) since these were also the centres where business activity was largely concentrated. The turnover in rural centres showed a decline from 32.9 to 28.6 mainly due to much sharper rise in deposits at these centres than debits thereto. A bulk of the debits continued to come from the big cities, *viz.*, Bombay, Calcutta, Madras and Delhi. In 1966, the turnover of current deposits was 51.4 at Bombay, 68.2 at Calcutta, 56.3 at Madras and 31.6 at Delhi, as compared to the all-India turnover of current deposits at 45.0. The relation of turnover rate with business activity is brought out by the comparatively higher rates of turnover at selected project centres having industrial and commercial importance, *e.g.*, as against the rate of turnover of 40.4 for centres with population of 1—5 lakhs the rate of turnover of current deposits was 84.6 in Cochin, 59.3 in Jamshedpur, 54.9 in Ranchi, 37.2 in Ajmer, 36.9 in Bhopal, 28.4 in Visakhapatnam and 25.2 in Nasik. In Durgapur (population 35,000) the rate was 47.4, in Koraput (population 7,461) it was 49.7, in Namrup (population 3,616) it was 38.9, in Ranipur, Saharanpur district, Uttar Pradesh (population 68) it was 41.1.

6.22 Deposits of individuals rose from Rs. 388.9 crores in December 1951 to Rs. 2,547 crores in March 1969. Business deposits which stood at Rs. 300.4 crores as at the end of 1951 rose to Rs. 1,049.8 crores in March 1969 (Table 6.3). Government and quasi-Government deposits rose from Rs. 111.5 crores in 1956 to Rs. 126 crores in April 1961 and Rs. 236.6 crores in 1969. Other deposits rose from Rs. 132.3 crores in 1951 to Rs. 617.6 crores in 1969. Deposit growth was the sharpest in the personal and professional deposit group, followed by business deposits. As regards deposit accounts, personal and professional accounts dominated, accounting for 89 per cent of the total number of deposit accounts at end-March 1969. Accounts of business concerns comprised 5.6 per cent of the total deposit accounts. The increase in the share of personal and professional deposits is relevant in the light of the growth in the number of accounts which increased from 29.6 lakhs in December 1951 to 37.3 lakhs in December 1956 to well over 163 lakhs of accounts in March 1969.

6.23 It would be worthwhile to review the performance of banks in areas where they have been comparatively more successful in attracting deposits. Five major cities, Ahmedabad, Bombay, Calcutta, Delhi and Madras, together accounted for 14.5 per cent of the number of offices and 44.2 per cent of bank deposits as on December 31, 1969. Bombay alone accounted for 18.6 per cent of bank deposits.

TABLE 6·3—OWNERSHIP PATTERN OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS

	December 31, 1951		December 31, 1956		April 28, 1961		March 31, 1968		March 31, 1969	
	Accounts (000's)	Amount (Rs. crores)	Accounts (000's)	Amount (Rs. crores)	Accounts (000's)	Amount (Rs. crores)	Accounts (000's)	Amount (Rs. crores)	Accounts (000's)	Amount (Rs. crores)
SECTORS										
1. Business	179 (5·5)	300·4 (36·6)	206 (5·2)	338·0 (31·4)	629 (10·3)	564·0 (33·3)	934 (5·8)	919·1 (23·0)	1028 (5·6)	1049·8 (23·2)
2. Personal (Individuals)	2961* (91·6)	388·9* (47·3)	3732* (92·7)	520·8* (48·5)	5322 (87·1)	809·5 (47·8)	14196 (88·1)	2288·0 (57·3)	16057 (87·6)	2547·1 (56·4)
3. Professional	@@	@@	@@	@@	@@	@@	220 (1·4)	61·4 (1·5)	253 (1·4)	65·0 (1·4)
4. Government and Quasi-Government Bodies	@@	@@	19 (0·5)	111·5 (10·4)	20 (0·3)	126·0 (7·4)	35 (0·2)	227·2 (5·7)	33 (0·2)	236·6 (5·2)
Others	94 (2·9)	132·3 (16·1)	67* (1·6)	104·5* (9·6)	143 (2·3)	194·6 (11·5)	723 (4·5)	498·9 (12·5)	958 (5·2)	617·6 (13·8)
Total	**3234** (100·0)	**821·6** (100·0)	**4024** (100·0)	**1074·8** (100·0)	**6114** (100·0)	**1694·1** (100·0)	**16108** (100·0)	**3994·6** (100·0)	**18329** (100·0)	**4516·1** (100·0)

* Includes unclassified deposit accounts of less than Rs. 500.
@@Separate data for these items are not available.
Note : Figures within brackets indicate percentages to the total.
Source : Surveys of Ownership of Deposits, 1951, 1956, 1961, 1968, 1969, conducted by the Reserve Bank of India. Later data are not yet available.

6.24 There are no comprehensive or conclusive data relating to preference of depositors in rural areas and urban areas as regards types of deposits. A study of deposits of 14 nationalised banks in large cities (*i.e.*, in centres with population above 5 lakhs) and in rural areas (*i.e.*, in centres with population below 10,000, and those for which population data were not available) as at the end of 1968 showed that fixed deposits formed 49 per cent of deposits both in rural centres as well as large cities. The relative share of savings deposits in rural areas is higher than that in large cities. Savings deposits accounted for 40 per cent of total deposits in rural areas and 26 per cent of total deposits in large cities. The estimates made by the Study Group on Banking Costs for all Indian scheduled commercial banks for the period January-May 1970, of the distribution of different types of deposits in centres classified according to the size of population also show a similar pattern. As to the distribution of depositors by types of accounts, the report on the Survey made by the NCAER states that there is a well-marked rise in the proportion of current accounts to total accounts with the increase in the population size of towns and cities. There is an equally clear decline in the proportion of cumulative time deposit (CTD) accounts to all accounts with an increase in the size of towns and cities. Whereas the proportion of savings accounts to all accounts in metropolitan cities is very definitely smaller than in other towns and cities, there is no evidence that there is a general inverse relationship between importance of savings accounts and size of towns and cities. Similarly, whereas the proportion of fixed deposit accounts is larger in metropolitan cities, no trend leading to it can be identified in the other categories of towns and cities. The concentration of current deposits in large cities is attributable to the preponderance of business deposits in current deposits and the relatively greater use of cheque facilities in large cities.

6.25 At the end of 1969, out of 4,858 towns, which had bank offices, there were 61 towns, each of which had commercial bank deposits of over Rs. 10 crores and 44 towns, each of which had deposits of Rs. 5-10 crores, the remaining 4,753 centres had deposits below Rs. 5 crores each. All the 13 centres with population above 5 lakhs had each deposits of above Rs. 10 crores. Of 93 centres, with population between 1 lakh and 5 lakhs, 39 had deposits above Rs. 10 crores and 22 had deposits of Rs. 5-10 crores and 32 had deposits below Rs. 5 crores. Of 2,544 centres with population of above 5,000 to 1 lakh only 9 had deposits of over Rs. 10 crores and 22 had deposits of Rs. 5-10 crores and the remaining 2,523 had deposits below Rs. 5 crores. There were 2,198 centres with population below 5,000 or whose population was not known, which had banking offices. Commercial banks had 1,249 offices in these centres—none of which had deposits of above Rs. 5 crores.

6.26 As compared to the all-India average deposit per office of Rs. 57 lakhs and average credit per office of Rs. 41 lakhs, in bigger centres with population above 10 lakhs, average deposit per office amounted to Rs. 175 lakhs. In centres with population between 5 to 10 lakhs, average deposit

per office was Rs. 90 lakhs, in centres with population between 2 to 5 lakhs it was Rs. 76 lakhs ; in centres with population below 2 lakhs it was as low as Rs. 29 lakhs. Project towns had higher than average aggregate deposits and deposit per office. In five centres, Bombay, Calcutta, Navsari, Shillong and Dhanbad, average deposits per office exceeded Rs. 2 crores, while 30 centres had Rs. 1 to 2 crores as average deposit per office.

6.27 Branch expansion by commercial banks constitutes one of the instruments for deposit mobilisation. One of the main objects of the control over branch expansion exercised by the Reserve Bank of India has been to correct the unevenness arising out of the concentration of banking offices in urban centres, particularly metropolitan centres. The progress of branch expansion of commercial banks is reviewed in Chapter 5 and of co-operative banks in Chapter 8.

Schemes Catering to Depositors' Motivation

6.28 It is also necessary for banks to take into account the 'motivation' for savings to attain a larger measure of success in deposit mobilisation from small persons. Some of the 'motivations' for savings could be (1) to own a house, (2) to provide for children's education and marriage, (3) to provide for old age, and (4) to provide for emergency expenditure like medical expenses.

6.29 To make a socially gainful use of such motivations, in addition to the usual types of deposits, a number of new schemes have been introduced recently by commercial banks for attracting deposits. The scope of the older schemes of the same type was also enlarged. These new schemes are tailored to the special needs and preferences both as regards the manner of collection and of repayment. These aim at inducing people to save regularly and further to keep these savings in the form of bank deposits. In addition to the linking of deposits with the savings motive, some deposit schemes are linked with certain 'services'.

6.30 The amount and frequency with which deposits can be made differ from person to person. Daily wage earners and retail traders are in a position to save a small amount every day. They may be induced to deposit it with a bank, if the bank arranges for its collection. Salary earners with fixed incomes can save fixed amounts every month. Farmers who grow one or two crops a year are in a position to save substantial amount after harvest. They may be induced to deposit with the bank annually or half-yearly. Some depositors may prefer to receive the interest amount on a monthly basis, while others would prefer to get a lumpsum amount after a specified period.

6.31 For various types of self-employed professionals like doctors and pleaders, who do not have provident fund facilities or gratuity payments to

fall back upon after their retirement, annuity or retirement schemes are useful ; this is only an extension of recurring deposit schemes as both the deposits made earlier and the repayments to the depositor later are by instalments. These schemes are akin to life insurance but do not provide insurance cover. Insurance linked deposits cover the life of the depositor.

6.32 Some depositors would prefer to get loan facilities at concessional rates for a particular purpose, after a certain amount is collected in the deposit account. Their deposits can be treated as the basis for bank loan for a specific purpose at a future date. The actual deposit provides the margin for loan.

6.33 Some of the schemes already in force before, as also new ones introduced thereafter are summarised below.

Old Schemes

(1) *Cash Certificates*

Cash certificates are fixed deposits, which, if necessary, are encashable before maturity at appropriate discounts. Interest is included in the final repayment. This scheme had only a limited success.

(2) *Daily Savings Scheme*

Under the scheme small depositors are expected to deposit their monies with the bank every day. It is specially meant for the daily wage earners. These thrift schemes are attractive and have useful features to facilitate daily savings of small amounts. Syndicate Bank was a pioneer in this field with its Pigmy Deposit Scheme.

(3) *Minor's Savings Scheme*

This scheme is introduced as an attempt to encourage children to form the saving habit. Withdrawal facility is available in the scheme.

(4) *Ladies Department*

In order to attract women as depositors, some banks have Ladies Departments. They also conduct special courses to acquaint the women with the banking habit.

New Schemes

(5) *Monthly Interest Income Schemes*

These are fixed deposit accounts on which interest is paid monthly instead of annually or half-yearly. Interest is either paid by way of cash or is credited to the current or savings deposit account of the depositor. It can

be credited to a recurring deposit account or a festival deposit account also. (A festival deposit account is a type of recurring deposit account on which attractive gifts are given at the time of a specified festival). Banks usually allow loan facility and refund facility before maturity on appropriate terms like margins, discounts, etc., even on these deposits.

(6) *Annuity or Retirement Schemes*

Monthly instalments of deposits are collected for a period of years. The amount inclusive of interest or double the amount in monthly instalment is repaid after a certain specified period.

(7) *Farmers' Deposit Scheme*

This scheme is intended for the benefit of those farmers, who can save, once or twice a year, when their income is received after harvest. Under the scheme farmers can deposit their money once or twice a year as and when they receive the proceeds of the sale of their crop and they can withdraw upto one-tenth of deposit every month.

(8) *Insurance Linked Savings Bank Accounts*[1]

The scheme provides life insurance protection on the life of an account holder covered under a Special Insurance Linked Savings Bank Account. Men not below 18 years of age and not above 49 years of age and who agree to maintain the specified minimum balance and women in the same age group, if they have an independent regular income by way of salary, professional income, rent, dividend on shares are eligible for opening an account under this scheme. Joint accounts can be opened by two persons closely related to each other but only one of the joint account holders will be insured. An account holder should maintain a minimum interest bearing balance of Rs. 500 in rural areas, that is, places with a population less than 10,000 and Rs. 1,000 in other areas. Insurance cover is provided by the Life Insurance Corporation under a special arrangement with the bank. Premium at 1.25 per cent is payable by the bank to the Life Insurance Corporation. Interest at the rate of 4 per cent per annum will be given by the bank on minimum balance. In addition to the repayment of the balance in the account, an account holder is entitled to the following benefits :

(*a*) In the event of premature death of the account holder before the age of 41, the surviving account holder will get *twice* the amount of deposit maintained during half-yearly account period immediately preceding the date of death, subject to a maximum of Rs. 10,000.

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1 In September 1971 a scheme for insurance linked unit trust investment was introduced which is a scheme for savings mobilisation. It indirectly adds to bank deposits.

(*b*) In the event of premature death of the account holder above the age of 41, the surviving account holder will get an amount *equal* to the average monthly minimum amount of deposit maintained during the half-yearly accounting period immediately preceding the date of death, subject to a maximum of Rs. 5,000.

(*c*) Full benefits are available only if a period of minimum 2 years has elapsed from the date of opening the insurance linked Savings Bank account of the deceased account holder. For shorter periods, benefits are lower on a sliding scale (*e.g.*, only accidental deaths are covered in the first year, accidental deaths are fully covered while deaths due to other causes are covered to a limited extent in the second year).

(9) *Housing Deposit Schemes*

These schemes are suitable for those wishing to acquire/construct their own houses. Account holders have to deposit monthly instalments for a fixed period and at maturity the depositor can obtain a loan equal to twice the amount of deposit at a concessional rate of interest.

(10) *Automatic Extension Deposit Scheme*

Depositors make a lumpsum payment and the deposits can be automatically renewed for any term as desired after the specified period.

Post Office Savings Banks and Their Role in Deposit Mobilisation

6.34 The postal savings banks are an important agency for collecting deposits from small savers. This is partly on account of the wide network of post offices throughout the country, quite a number of which are in unbanked areas and partly on account of the fact that banks generally did not make much effort to attract this class of depositors. Exemptions from income tax in the case of interest earned on and from wealth tax for the amount of a deposit in the postal savings bank have attracted deposits from the richer sections of the society also though there are ceilings on the amounts individual depositors of different categories can hold. Other factors include introduction of facilities like the cheque system and bi-weekly withdrawal facilities and since 1965-66 the placement of registration deposits in postal savings accounts by would-be purchasers of automobiles and scooters.

6.35. During the period 1951 to 1969 the number of postal savings banks rose from 9,890 to 16,634* while the number of accounts increased from 40.90 lakhs to 183.94 lakhs or by 349.7 per cent. Savings deposits with these

* This number refers to the head and sub-banks. In addition to these, branch post offices also do savings banks work and the number of such branch offices throughout India was 63,810 at the end of March 1969.

banks increased from Rs. 185.1 crores to Rs. 812.0 crores. The average balance held per depositor declined marginally by 2.5 per cent from Rs. 452.5 in 1951 to Rs. 441 in 1969. This is indicative of the gradual extension of postal savings banks into new areas and to new clientele.

6.36 Compared to the savings deposits with the post offices, the savings deposits of scheduled banks which constituted 16.5 per cent of their total deposits in 1951 formed 24.6 per cent of total deposits in 1969. While deposits of postal savings banks exceeded savings deposits of scheduled commercial banks by nearly Rs. 50 crores in 1951, the position was reversed in 1968, when savings deposits of scheduled commercial banks exceeded postal savings deposits by over Rs. 200 crores. The volume of postal savings deposits till 1965 exceeded savings deposits of scheduled commercial banks, but thereafter with the liberalisation of withdrawal facilities for savings accounts by the commercial banks, there was a spurt in the volume of savings deposits of scheduled commercial banks. A part of this rise represented a shift from current to savings accounts on account of such liberalisation.

Co-operative Banks

6.37 In the basic philosophy of co-operation, great emphasis is placed on thrift. The co-operatives were the pioneers in mobilising rural deposits and have been in the field longer than any other agency. Owing, however, to the stagnation of Indian agriculture for a long period the scope for deposit mobilisation in the rural areas remained small. After the introduction of the integrated scheme of rural credit, the co-operatives have been placing greater emphasis on their lending activities than on deposit mobilisation.

6.38. In absolute terms, deposits of co-operative banks have increased at all levels. Deposits of State co-operative banks increased from Rs. 21.2 crores in June 1952 to Rs. 81.4 crores in June 1962 and further to Rs. 234.3 crores in June 1970. Deposits of central co-operative banks increased from Rs. 38.2 crores in June 1952 to Rs. 124.5 crores in June 1962 and to Rs. 381.7 crores in June 1970. Primary agricultural credit societies which had only Rs. 4.4 crores as deposits in 1952 had Rs. 62.7 crores as deposits in June 1970. Urban co-operative banks had deposits amounting to Rs. 140.6 crores in June 1970 (Table 6.4).

6.39 In recent years, there has been a faster growth in deposits of co-operative banks. Between June 1962 and June 1970, deposits of apex co-operative banks increased by 188 per cent and those of central co-operative banks increased by 207 per cent.

6.40 In June 1969, although co-operative banks accounted for over 30 per cent of all bank offices, their deposits were only about 10 per cent of all bank deposits. This is due, to a large extent, to the fact that offices of co-operative banks are mostly in the smaller towns and villages.*

* See also Chapter 10.

TABLE 6·4—PATTERN OF RESOURCES OF CO-OPERATIVE CREDIT INSTITUTIONS

Amount in crores of Rs.

	1951-52	1961-62	1968-69	1969-70
	(1)	(2)	(3)	(4)
State Co-operative Banks				
Owned funds	4·26	28·86	75·46	82·82
Deposits	21·18	81·44	215·63	234·30
Borrowings	11·26	145·79	275·44	302·32
Total Working Capital	**36·70**	**256·09**	**566·54**	**619·44**
Central Co-operative Banks				
Owned funds	9·81	61·80	154·87	174·14
Deposits	38·24	124·46	350·84	381·71
Borrowings	12·06	166·39	324·74	371·94
Total Working Capital	**60·11**	**352·65**	**830·45**	**927·79**
Primary Agricultural Credit Societies				
Owned funds	17·67	88·62	215·15	241·03
Deposits	4·40	17·64	56·84	62·67
Borrowings	23·15	219·07	540·23	617·94
Total Working Capital	**45·22**	**325·33**	**812·22**	**921·64**
Urban Co-operative Banks				
Owned funds	5·78	8·71*	31·14	33·88
Deposits	19·57	32·39*	125·92	140·63
Borrowings	1·96	2·85*	7·68	9·58
Total Working Capital	**27·31**	**43·95***	**164·74**	**184·09**

* Relate to 1955-56.

Sources : (1) Statistical Statements Relating to Co-operative Movement in India for 1951-52, 1961-62, 1968-69 and 1969-70.

(2) Figures for urban co-operative banks (columns 1 and 2) are from Reserve Bank of India Report on the Survey of Urban Co-operative Banks (1957-58) published by the Reserve Bank of India, 1961.

Banking Facilities in Rural Areas

6.41 As at the end of June 1970, there were 4,596 co-operative bank offices as against 1,229 co-operative bank offices in 1956. The contribution of the co-operative banks in taking banking facilities to smaller towns is substantial. In December 1969, of the 1,825 bank offices at places with a population of 5,000 to 10,000 as many as 787 or 43.1 per cent were those of co-operative banks. The co-operative banks accounted for 1,002 or 61.5 per cent of 1,630 bank offices in places with a population of less than 5,000.

Deposit Mobilisation by Co-operatives

6.42 Total deposits of apex, central and urban co-operative banks amounted to Rs. 756.6 crores in June 1970*. Of this, 25 apex co-operative banks accounted for Rs. 234.30 crores, 340 central co-operative banks for Rs. 381.71 crores and 1,129 urban co-operative banks for Rs. 140.63 crores. Among apex co-operative banks, 11 had deposits of over Rs. 5 crores each, 6 had deposits ranging between Rs. 1 to 5 crores each and the rest had deposits below Rs. 1 crore each. Among central co-operative banks, 15 had deposits of more than Rs. 5 crores each, 94 had deposits ranging between Rs. 1 to 5 crores each and 231 had deposits below Rs. 1 crore each. Average deposit per office of central co-operative banks was Rs. 11.1 lakhs only. Deposits from individuals and institutions other than co-operatives, *i.e.*, non-members, which is a useful index of deposit mobilisation of co-operatives formed 29.4 per cent of deposits of State co-operative banks, 59.8 per cent of deposits of central co-operative banks and 46 per cent of deposits of urban co-operative banks.

Deposits of Quasi-Government Bodies

6.43. The Committee on Co-operative Credit (1960) had recommended that the co-operative banks should be made eligible for the deposit of funds of quasi-Government institutions. Following this recommendation, State Governments of Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Mysore, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal have permitted the local bodies to bank with co-operative banks but only in Maharashtra where the Zilla Parishads and Panchayat Samitis are obliged to deposit their surplus funds with central co-operative banks, deposits of local bodies with the co-operative banks are sizable.

Deposit Insurance Cover

6.44 The absence of insurance cover for deposits with the co-operative banks was a handicap in the way of deposit mobilisation. However, with

* The figure is somewhat exaggerated as there is some double counting due to overlapping arising out of the practice of showing reserve fund deposits and other deposits—like current account deposits and fixed deposits of co-operatives with the higher financing agency as deposits by both.

the passing of the Deposit Insurance Corporation (Amendment) Act, 1968, deposit insurance cover to co-operative banks can be extended provided the State Governments pass the necessary legislation.

DEPOSITS WITH NON-BANKING FINANCIAL AND NON-FINANCIAL INTERMEDIARIES*

6.45 Deposits with companies other than banks and with firms have come into prominence in recent years. Of these, the more important are the deposits accepted by trading and manufacturing companies. Such deposits have been a traditional source of finance in India but more recently, *i.e.*, since the Third Plan, the growth of such deposits has been considerable. As a result of general credit stringency, companies attempted to raise funds needed by them directly from the public by offering interest rates on deposits placed with them well in excess of rates for deposits of comparable periods paid by banks. While to the depositor, the rate offered is higher than that offered by banks, the cost of deposits to the company is less than what it would have to pay to a bank. Moreover the availability and volume of bank credit are restricted by considerations of margins, security offered, etc. The credit available to companies through deposits is not hampered by such considerations. There is no question of margins or security. These deposits are available for comparatively longer terms than bank credit. This virtually means that companies cut down one set of intermediaries and borrow directly from the saver instead of through a bank.

6.46 Such deposits, however, do not necessarily lead to a diversion of deposits from the banking system. For, when such a deposit is made by a member of the public, he would either convert his bank deposits into a deposit with a non-banking company or convert his idle cash balance into such deposit. When the deposit is placed with a company it would be used like any other source of finance. Eventually, these company deposits would find their way into the banking system *via* tax payments, payments to creditors or as working balances of companies ; the diversion, if any, could not be more than the share of currency in the total monetary resources. Non-bank deposits are thus not completely lost to the banking system. If anything, to the extent that such deposits activise currency hoards, they tend to increase the overall resources of the banking system.

6.47 The main objections to non-banking deposits are that (*i*) they distort the interest-rate pattern, (*ii*) they encourage non-priority sectors of production, and (*iii*) they are unsecured deposits ; in the event of a failure of the company, depositors have no assurance of getting their money back. Company deposits are now being subject to regulation to some extent accord-

* The Non-Banking Financial Intermediaries have been reviewed in detail later in Chapter 17 on Non-Banking Financial Intermediaries.

ing to the notification issued under Sections 45K and 45L of the Reserve Bank of India Act, 1934 for extending protection to the depositors. One type of non-bank deposits which, however, remains largely outside the purview of regulation is the money placed in the rural areas,with moneylenders or traders. It appears, however, that there is need for a greater degree of control for safeguarding the moneys of the depositors.

General Observations

6.48 The brief review made in the foregoing paragraphs of the efforts to mobilise deposits indicates a willingness on the part of commercial banks to innovate with a view to designing schemes which cater to the needs of the different classes of depositors. While such efforts have to continue, it is equally important for banks to see that the standard of services for the existing depositors is also maintained at a high level. Efficient service and courteous and personalised attention have been found to be among the most important considerations in depositor's choice of a bank in the survey by NCAER. The relative importance of efficient service and courteous and personalised attention in influencing the depositor's choice of a bank increases considerably as one moves from small towns to the large ones. The availability of ancillary banking services also is an important factor influencing the depositor's choice, particularly in the smaller towns.

6.49 In several of the new schemes the banks are likely to experience an increase in cost. While during the promotional period of a scheme, the cost factor can be ignored to some extent once the scheme proves successful in attracting deposits on a sizable scale, it would not be advisable to do so. It will, therefore, be useful for banks to make a proper cost-benefit analysis of these schemes from time to time.

6.50 Deposit mobilisation in rural areas will continue to be the responsibility mainly of the co-operative banks as it is these banks which have a wider organisational net work in the rural areas. Owing to a number of reasons, however, discussed in Chapters 8 and 10 they have not been able to tap the deposit potential in these areas fully. Several steps have been recommended in these chapters to overcome their present difficulties and offer a wider range of services to their customers. This should enable them also to introduce new schemes such as those introduced by the commercial banks and thus develop the banking habit in the rural areas.

Chapter 7

FUNCTIONAL COVERAGE II: ADVANCES WITH PARTICULAR REFERENCE TO FINANCING OF PRIORITY SECTORS: SMALL ARTISANS AND SMALL SCALE INDUSTRIES

General Problems of Borrowers

7.1 In the preceding chapter, we have discussed one of the major functions of banks, *viz.*, deposit mobilisation. Their other major function is to make loans and advances.

7.2 The customers of banks for credit can be classified into (*a*) sectors which customarily make use of bank finance for their operations and, therefore, are familiar with bank procedures and methods and (*b*) sectors which ordinarily do not use bank finance on a sizable scale. The former comprise large and medium scale industries, wholesale traders, exporters, importers, stock brokers and generally the influential sections of the society. The latter include small agriculturists, small scale industries and various types of small borrowers such as artisans, self-employed persons, transport operators, etc. This latter group is generally the economically weaker section of the community. With the recent change in the emphasis on priorities in bank lending, these categories of borrowers along with exporters are regarded as priority sectors. As far as the borrowers in group (*a*) were concerned, the Commission sought to obtain information through the issue of an exhaustive questionnaire on the difficulties faced by them in their relationship with banks and, in particular, regarding the opening of loan accounts, renewals and enhancement of credit limits, terms and conditions of advances and securing term loans. More than 4,000 units were addressed for this purpose through the good offices of the Reserve Bank of India[1] and about 100 chambers of commerce and industries. As regards the priority sectors, the Commission organised studies in some depth by adopting the interview technique. For this purpose the Commission entrusted surveys on small scale industrial units and small artisans at 21 centres to well-known research scholars who prepared reports for the use of the Commission. Similarly, field studies and projects were undertaken to examine the problems connected with agricultural credit.[2]

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1 The Reserve Bank of India had sent the Commission's questionnaire to almost all the public and private limited companies included in their company finance studies (See also Appendix VIII).

2 For a list of these projects and studies, see Appendix IV.

Response to the Questionnaire to Medium and Large Scale Industries, Wholesale Traders, Exporters and Importers

7.3 Although a large number of questionnaires were sent, only 200 (4.9 per cent) sent replies. This low response might perhaps be due to the non-respondents not having any major problems in their dealings with banks in regard to the aspects covered by the questionnaire. A brief account of the analysis is given below. In view of the very low response, however, caution is necessary in applying these conclusions. Out of 56 units which obtained credit limits for the first time in the last five years, 37 (*i.e.*, 66 per cent) did not state any difficulty. Of the 100 units which applied for term loans, 70 per cent did not find any difficulty in getting them sanctioned. 69 per cent of the total respondents did not state any difficulty in obtaining renewals of credit facilities. 6 units reported that the limits sanctioned were inadequate, while 19 units complained about the delays in sanctioning term loans, specially owing to the delays in getting refinance facilities from the Industrial Development Bank of India (IDBI) . 9 units felt that banks insisted on too many formalities in the operation of accounts. These formalities related to the number of forms needed to be filled in and to the furnishing of detailed statements of stocks or of book debts every fortnight. 7 units observed that there were delays in processing of documents in respect of negotiation of bills discounted, resulting in demurrage costs. A few units complained about the time lost in forwarding proposals by regional offices of banks to the Head Office and by the latter to the Reserve Bank in cases where the credit limit exceeded a prescribed maximum.

7.4 A few suggestions were given by some of the respondents. 35 units suggested that bank loans may continue to be security-based but the bankers should also take into account profitability, creditworthiness, technical qualifications of the entrepreneur, and feasibility of the scheme. 31 units stated that bankers should not insist on personal guarantee of directors or of a third party as an additional condition for granting advances when security is considered to be adequate. 6 units felt that the stipulations regarding security may be substantially relaxed or totally waived in certain special circumstances as when a small quantity of raw materials had to be purchased and the required margin was not immediately available due to tight liquid position or when there arose sudden need for funds for payments like income tax, sales tax or arrears of salaries, wages, bonus, etc. Altogether 15 units thought that margins should be reduced, while 7 suggested reduction of interest rates on loans. An equal number of units suggested that other charges (for salary and allowances of godown-keepers, conveyance charges of the inspection staff, legal fees for finalisation of documents, stamp fee, etc.) should not be imposed. A few respondents felt that charges in connection with bill negotiations or bill collections on their behalf should be nominal and uniform and charges for issuing guarantees should be reduced. Most of the borrowers did not favour

imposition of commitment fee[1] or stipulating a minimum interest clause, because they felt that it would raise costs unjustifiably. Cash credits were preferred to bills by most of the respondents because they thought that the system of cash credits was a more flexible and less costly form of borrowing.[2]

7.5 In the course of the discussions with the Commission, some of the representatives of large and medium borrowers pointed out the difficulties they faced with some of the major banks after their nationalisation. These difficulties related mostly to the delays in sanction, renewal or enhancement of credit limits by banks or the time-consuming procedures adopted by credit institutions. The Commission feels that some of these difficulties were largely due to the changes in set-up at the management level and other teething troubles of these banks immediately after nationalisation. The Commission has dealt with the question of improving management in banks and has made various recommendations in Chapters 11, 13, 14 and 15 of the Report.

7.6 The replies of large and medium scale borrowers as well as the discussions that the Commission had with organisations representing such borrowers indicate that the difficulties and problems experienced by them are of two types : (*a*) those relating to matters connected with credit policy (*e.g.*, margins imposed on bank lending against specific commodities) and (*b*) those relating to matters connected with bank operating methods and procedures and costs of borrowing. The first group of problems is outside the terms of reference of the Commission. The latter aspects are examined in detail in Chapters 11 (Bank Operating Methods and Procedures) and 12 (Costs and Capital Structure of Banks) of the Report.

Problems of Borrowers in the Priority Sectors

7.7 The problems of borrowers belonging to the various priority sectors assume particular relevance in the light of socio-economic objectives in regard to the allocation of bank credit. It is necessary to ensure that the productive capacity of the economy is not impeded for want of credit to these sectors which together contribute a major proportion of national income.

7.8 The available statistical information shows that the flow of credit to the priority sectors in general and to the neglected sectors in particular from the scheduled commercial banks, especially those in the public sector, has increased during the last two years. Table 7.1 gives details of assistance provided by the State Bank of India group, 14 nationalised banks and other scheduled banks to agriculture, exports, small scale industries and transport

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1 Commercial banks, in accordance with the directive of the Reserve Bank of India, have begun to levy a commitment charge of 1 per cent per annum from April 1970 on the unutilised portion of credit limits of Rs. 10 lakhs and above with some exceptions.

2 See the *Report of the Study Group on the Extent to which Credit Needs of Industry and Trade are Likely to be Inflated and How Such Trends Could be Checked,* National Credit Council, Bombay, 1969.

TABLE 7·1—SCHEDULED COMMERCIAL BANKS' CREDIT TO PRIORITY SECTORS
(BANK GROUPWISE)

(Amounts rounded off to the nearest crore of rupees)
(Number of Accounts rounded off to the nearest thousand)

	AS ON THE LAST FRIDAY OF															
	June 1969								March 1971							
	State Bank of India Group		14 Nationalised Banks		Other Banks		**Total**		State Bank of India Group		14 Nationalised Banks		Other Banks		**Total**	
	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	**No. of A/cs.**	**Amount**	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	**No. of A/cs.**	**Amount**
	1	2	3	4	5	6	**7**	**8**	9	10	11	12	13	14	**15**	**16**
1. Agriculture	38	100	127	62	103	26	**267**	**188**	280	143	521	195	254	41	**1056**	**379**
2. Exports	N.A.	71	N.A.	124	N.A.	69	**N.A.**	**264**	N.A.	103†	N.A.	185†	N.A.	87	**N.A.**	**375**
3. Small Scale Industries‡	26	103	25	148	6	35	**57**	**286**	49	197	46	244	9	53	**104**	**494**
4. Transport Operators	..	..	2	6	1	3	**3**	**9**	4	8	16	32	3	8	**23**	**48**
5. For setting up Industrial Estates*	—	—	..	..	..	..	..	..	—	—	..	3	..	..	..	**3**

N.A. Not Available. † Provisional.
‡ Figures under 'No. of A/cs.' relate to number of small industrial units assisted.
* Loans for setting up industrial estates for Small Scale Industries.
.. Negligible. — Nil.

Notes : (1) Constituents do not add up to the totals in columns 7, 8, 15 and 16 on account of rounding off of the figures.

(2) Comparable data for June 1969 and March 1971 relating to advances to other priority sectors such as professionals and self-employed, retailers, small business and for educational purposes are not available for all the categories of banks.

Source : Reserve Bank of India.

operators. It shows that between June 1969 and March 1971 the number of accounts rose in the case of agriculture by about 8 lakhs. During the same period the number of small scale units assisted rose by about 47,000. Advances to agriculture during the same period rose by more than 100 per cent, to small scale industries by 73 per cent and to exports by about 42 per cent. On the basis of available figures it appears that the rate of growth in advances to priority sectors is high although it has to be appreciated that in the case of some priority sectors the level of advances was quite low in June 1969 and, in some cases, the figures relating to the number of accounts or to advances are not available for that date. The order of increase does not show the gap that still remains between the credit needs of borrowers in the priority sectors, and the actual credit made available to them, nor does it reflect the magnitude of the problems which remain to be solved.

7.9 Apart from the above statistical data very little information is available on the credit needs and problems of the priority sectors excepting exports. The problems of exporters have already been examined in depth by a number of study groups appointed by the Government and the Reserve Bank over the last two decades or so. Such of these problems as are relevant from the point of view of the Commission's terms of reference are dealt with in Chapter 11 (Bank Operating Methods and Procedures) and Chapter 16 (The Need for Specialised Financial Institutions). Similarly we have dealt with matters relating to financing of agriculture in Chapters 8 to 10. In this chapter, therefore, we shall discuss the problems of borrowers in the priority sectors by taking small artisans and small industrial units as case studies.

7.10 The Commission sought to examine the credit needs and problems of small artisans and small scale industrial units all over the country. For this purpose, the Commission chose 21 centres[1], designed the schedules and entrusted the work of data collection and writing of reports to project directors belonging to Universities and other research institutions. Processing of data was done by the Commission. The surveys were intended to throw light on the role played by the various credit institutions in meeting the credit needs of small artisans and small scale industries distributed all over the country and the problems experienced by the borrowers. Owing to the limited time at the disposal of the Commission, the surveys were designed to be illustrative and not estimational. Inter-centre comparison of the collected information was not attempted as the sample at each centre was too small to serve that purpose. The data for the 21 centres were aggregated and the main findings[2] are given here to highlight the important problems involved in regard to bank credit to these sectors.

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[1] The centres chosen were : Aligarh, Bangalore, Bhopal, Bombay, Calcutta, Chandigarh, Cuttack, Delhi, Gauhati, Hyderabad, Jaipur, Jammu, Kanpur, Kurukshetra, Ludhiana, Madras, Madurai, Patna, Poona, Surat and Trivandrum.

[2] Details along with statistical tables are given in a separate volume of technical studies.

I. Small Artisans

7.11 Small artisans are found in traditional activities such as carpentry, goldsmithy, weaving and masonry as well as in activities adjunct to modern mechanical industry such as radio repair work, welding, automobile repair work and so on. Most of them produce goods for household use. In a number of cases, these goods are of high aesthetic quality. As new skills are acquired, they may also perform certain functions approximating to servicing and maintenance of durable consumer goods. Encouragement to this class of producers results in important benefits to the economy in the form of additional output and employment.

Main Features of Small Artisans

7.12 One of the main features of small artisans is that their operations involve hardly any large scale mechanised application. They attend to work personally. They do not generally hire any labourer outside their families for helping them in their business. They usually cater to customers of given tastes and preferences and, with some exceptions, to markets of limited size. They generally do not work in any fixed premises (*viz.*, workshops, etc.). Their scale of operations mainly hinges upon the availability of raw materials. It is normal practice with small artisans to procure raw materials with the help of sale proceeds of their products of the earlier round of production, if any or with the money given to them as 'advance' either by the customers themselves when placing orders for goods or by intermediaries who sell the goods of artisans to traders or final consumers and make profits. In view of the comparatively low staying power of artisans, availability of funds on reasonable terms is crucial for them to run the normal course of business.

Sources of Credit

7.13 The usual sources of credit available to small artisans are the indigenous bankers, moneylenders and friends and relatives. These non-institutional agencies give loans at relatively high rates of interest. Among the institutional agencies giving loans to small artisans, the important ones are the commercial banks, but their coverage is limited mainly to cities and small towns. A few co-operative agencies have shown interest in recent years in lending to small artisans. Also such Government agencies like the Directorates of Industries and the Small Scale Industries Corporations have provided loan assistance to small artisans.

Main Findings of the Surveys

7.14 The total number of artisans interviewed was 1,087. They were classified into seven categories, *viz.*, carpentry, shoe-making and leather works, goldsmithy, blacksmithy, toy-making, lock-making, and 'others'. The 'others' group of small artisans—consisting of those in job-work, agarbatti-[1]

[1] Incense sticks.

making, murti[1]-making, dyes, weaving, potteries, printing and drawing of maps, wood-carving, cane work, umbrella-making, cap-making, handicrafts, beedi-making,[2] etc., to mention a few, formed about 64 per cent (692) of the total artisans. This was followed by shoe-makers (about 13 per cent), carpenters (about 12 per cent), blacksmiths (about 5 per cent), goldsmiths (about 3 per cent) and toy-makers and lock-makers (about 1.5 per cent each). About 70 per cent of the artisans worked in leased premises. The average annual turnover for all artisans was Rs. 13,000. The average annual turnover of 'others' was the highest at about Rs. 16,000 and that of 'lock-makers' the lowest at about Rs. 4,000. 65 per cent of the artisans were reported to have an annual turnover in the range of Rs. 2,000 to Rs. 10,000. It may, however, be noted that artisans in annual turnover size classes of less than Rs. 2,000 and Rs. 25,000 and above formed respectively, 9 and 10 per cent of the total.

7.15 In Table 7.2, we find average annual turnover and average financial needs of artisans belonging to different categories of work. The normal replacement cost of fixed equipment[3] per artisan came to about Rs. 1,241. The normal replacement cost per carpenter was the lowest; it was Rs. 671. The normal replacement costs per artisan among 'others', 'blacksmiths' and 'goldsmiths' were Rs. 1,453, Rs. 1,234 and Rs. 1,233 respectively. The normal finance requirements per artisan for purchasing raw materials and for other purposes were Rs. 5,934 per annum. The requirements for purchasing raw materials formed about 85 per cent of the total normal finance requirements. The per artisan normal finance requirements of 'others', and 'carpenters' were high at Rs. 6,866 and Rs. 5,123 respectively and those of goldsmiths and lock-makers low at Rs. 2,589 and Rs. 1,647 respectively. In working out the credit requirements of small artisans, these figures have to be adjusted with reference to the length of the cycle of production which varies considerably from one type of artisan to another.

7.16 About 80 per cent of the small artisans stated that their business was financed solely by their own funds. 19 per cent (*i.e.*, 207 artisans) did not finance their operations solely out of their funds[4]. Table 7.3 shows that the average amount borrowed was Rs. 2,874. The average amounts borrowed from institutional and non-institutional sources were Rs. 4,622 and Rs. 2,273 respectively. Thus in terms of the amount of loan, institutional sources seemed to be relatively more important. But viewed from the angle of total number of borrowers financed, the case was different, as institutional

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[1] Idols. [2] Indian variety of cigarettes wrapped in leaves.

[3] Small artisans were asked by investigators of the Surveys to give an idea of the cost they would normally incur for replacing their fixed capital, *e.g.*, tools, furniture, other fixtues, etc. These are not per mensem figures. The purpose of the question was to find out the average final needs of a small artisan insofar as his fixed capital requirements were concerned.

[4] Thus 207 artisans did not finance their operations solely out of their own funds. But from Table 7·3, it may be noted that 215 artisans borrowed from different credit agencies. The discrepancy between the two figures was explained by the fact that some artisans borrowed from more than one source.

TABLE 7·2—AVERAGE ANNUAL TURNOVER, AVERAGE REPLACEMENT COST OF FIXED CAPITAL AND AVERAGE NORMAL FINANCE REQUIREMENTS OF ARTISANS BELONGING TO DIFFERENT CATEGORIES OF WORK

Nature of work	Annual Turnover (Rs.)	Replacement cost (Rs.)	Normal finance requirements: For purchasing raw materials (Rs.)	Normal finance requirements: For Others (Rs.)	Normal finance requirements: **Total** (**Rs.**)
1. Carpentry	9731	670·85	4345·31	778·12	**5123·43**
2. Shoe-making and Leather Works	8415	797·51	3785·10	612·05	**4397·15**
3. Goldsmithy	5857	1232·85	1994·28	594·28	**2588·56**
4. Blacksmithy	9548	1234·36	4001·81	485·45	**4487·26**
5. Toy-making	4795	940·00	2621·05	394·73	**3015·78**
6. Lock-making	4153	945·88	1347·05	300·00	**1647·05**
7. Others	15633	1452·94	5824·71	1041·76	**6866·47**
Average for all groups ..	13005	1240·79	5044·34	889·51	**5933·85**

TABLE 7·3—NUMBER OF ARTISANS AND AMOUNTS BORROWED BY SOURCES OF BORROWING

Source of Borrowing	No. of Artisans	Amounts Borrowed (Rounded off to the nearest rupee): Total	Amounts Borrowed (Rounded off to the nearest rupee): Average
Institutional Agencies			
1. Commercial Banks	32	142950	4467
2. Co-operative Agencies	14	70400	5029
3. Government Agencies	9	40860	4540
4. Total (1+2+3)	55	254210	4622
Non-Institutional Agencies			
5. Indigenous Bankers	4	24650	6163
6. Moneylenders	80	114050	1426
7. Friends and Relatives	57	188150	3301
8. Any others	21	36750	1750
9. Total†	160	363600	2273
10. **Total** (4+9)	**215†**	**617810**	**2874**
11. *Trade Credit*	3*	8100	2667

† The actual number of artisans who borrowed from different sources is 207. Eight artisans had borrowed from more than one source, but the survey reports seem to reveal that the number of artisans borrowing from more than one source would be somewhat higher.

* Some centres did not report trade credit.

sources gave loans to only 55 artisans whereas non-institutional sources lent to 160 artisans. Among institutional sources, commercial banks were the most important both as regards the number of artisans who borrowed and the total amounts lent. They gave loans to a larger number of artisans than any other source. The highest average loan amount was recorded by co-operative agencies which however financed very few borrowers. Though the average amount lent by Government agencies was slightly higher than that of commercial banks, they also financed only a small number of artisans.

7.17 Among non-institutional agencies, moneylenders financed the largest number of artisans. 'Friends and relatives' came next followed by indigenous bankers.

7.18 A study of the periods of repayment and interest rates charged by different credit agencies revealed that commercial banks, co-operatives and Government agencies usually lent for relatively longer periods (ranging upto 3 years and in some cases even ten years) at 10 or less than 10 per cent per annum. In the case of non-institutional agencies, the periods of repayment varied very widely but did not exceed 4 years. It may be noted that the maximum interest rate stated by an artisan for borrowing from 'friends and relatives' was 75 per cent per annum.

7.19 It may be asked as to why institutional agencies could assist only a few artisans. The surveys revealed that about 60 per cent of the total number of artisans (*i.e.*, 651 artisans) were aware of credit facilities from banks and co-operatives. Of such artisans, about 70 per cent belonged to annual turnover categories ranging from Rs. 2,000 to Rs. 10,000. But only 196 artisans had approached institutional agencies (excluding the Government) for loan facilities. The main reasons for not approaching these agencies, as stated by those who did not approach them, were the existence of too many formalities and inadequacy of the securites that could be offered. Other reasons stated were 'late in applying', 'no need felt', 'have enough of own funds' and 'illiteracy'. The number of artisans who formally applied for bank or co-operative loans were 159, *i.e.*, 81 per cent of the artisans who approached these credit agencies for loans. About 28 per cent of those who applied for loans obtained them.

7.20 It was found, in answer to a specific question, that about 85 per cent (929) of the total expressed their intention to borrow from commercial banks. Of these, 65 per cent belonged to annual turnover categories of Rs. 2,000 to Rs. 10,000. It is interesting to know as to why 15 per cent of artisans (155) did not express willingness to borrow from banks or co-operatives. Among the reasons mentioned, the important ones were: high interest rate (21 artisans), inadequate explanation of credit facilities and stringent security stipulations (15 artisans each), cumbersome procedural details (9 artisans) and questions asked being many and irksome (7 artisans).

7.21 Other interesting facts disclosed by the surveys may be mentioned here. About 71 per cent of the total number (775 artisans) did not maintain any books of account of their business. Of the total respondents, about 88 per cent (952 artisans) marketed their products themselves. About 29 per cent (319 artisans) of the total had formed themselves into co-operatives or associations while about 70 per cent (763 artisans) did not have any such arrangement. The largest proportion of co-operatives or associations was found among goldsmiths. The main reasons adduced for not forming co-operatives were : 'Not interested', 'no need felt', 'no benefit seen', 'no guidance', 'lack of co-operation', 'not aware', 'want of numerical strength', 'illiteracy' and 'lack of funds and facility'. Asked as to whether there were any special problems, about 16 per cent (169) of the total of artisans stated 'shortage of finance' as their special problem. 93 artisans felt that raw materials were scarce and costly while 20 artisans thought that marketing facilities were inadequate.

7.22 The surveys reveal that the total finance requirements of 1,087 artisans for what may be called fixed and working capital would be about Rs. 78 lakhs. Total institutional borrowing, on the other hand, was only Rs. 2.5 lakhs. Institutional credit requirements, insofar as the 1,087 artisans were concerned, thus turned out to be Rs. 75.5 lakhs. Per artisan, the credit requirement came to about Rs. 6,941.

Suggestions Arising from the Surveys

7.23 It may be noted that in the first instance, as many as 65 per cent among the artisans willing to borrow from commercial banks, had an annual turnover ranging from Rs. 2,000 to Rs. 10,000. This would indicate that the smaller of the small artisans also showed willingness to borrow. Secondly, 71 per cent of the artisans did not maintain any books of account. This was probably one of the main reasons for only 5 per cent coverage of total artisans by institutional sources. Thirdly, of the artisans who did not approach institutions for loans, about 11 per cent complained of 'too many formalities' and about 16 per cent felt that the securities that they could offer were inadequate. These impressions of artisans indicate aspects that may have to be looked into, if banks are to play a significant role in promoting development of the weaker sections of the population. Lastly, as much as 70 per cent of artisans did not form co-operatives or associations mainly because they were not interested in such arrangements. Of the artisans who did not have co-operatives or associations, hardly 2.5 per cent stated the reason 'lack of funds and facilities' for not forming co-operatives, even though the credit requirements per artisan ranged from Rs. 2,593 in the case of lock-makers to Rs. 7,990 in the case of 'others'. This contrasts with the experience of goldsmiths, 83 per cent of whom formed themselves into co-operatives or associations. The proportion of goldsmiths (49 per cent) who maintained books of account was the highest for any category of artisans. The number of goldsmiths (3 in all)

who complained about shortage of finance was the lowest as compared to the other categories of artisans. 69 per cent of goldsmiths were aware of institutional credit facilities—this percentage being the highest as compared to the other types of artisans. And the credit requirement per goldsmith was one of the lowest at Rs. 3,757. All these facts seem to suggest that co-operatives or associations had made goldsmiths more organised and self-dependent. Their experience indicates that it may be useful to encourage the formation of co-operatives or associations by other categories of artisans as well.

Recommendations

7.24 An important development that took place since the time the surveys were undertaken was the introduction of the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme. This Scheme came into operation from April 1, 1971. Under it, credit facilities to self-employed persons in priority and neglected sectors are eligible for guarantee for amounts not exceeding Rs. 20,000. Such credit facilities could be utilised for purchasing the necessary equipment, or for repairing or renovating the existing equipment or "for purchasing tools or for working capital requirements." The scheme "will cover credit facilities even to skilled persons who do not have any professional or technical degree or diploma." With effect from October 1, 1971, the Credit Guarantee Corporation has introduced a scheme under which credit given to service co-operatives by scheduled commercial banks and by those State and central co-operative banks whose deposits are insured by the Deposit Insurance Corporation is guaranteed by the Corporation.

7.25 The Commission is of the view that the eligibility for participation in the credit guarantee scheme for small loans should be extended so as to include non-scheduled banks as well as co-operative credit institutions extending credit to industrial co-operative societies and small borrowers.

7.26 Besides the introduction of credit guarantee scheme, some other measures should be taken to facilitate the extension of credit to small artisans. In view of the illiteracy and unawareness of the accounting methods and practices among small artisans, commercial banks need not insist on maintenance of proper books of account for gauging their creditworthiness. Often, informal enquiries about the financial position and personal integrity and character of artisans in the localities where they live would prove useful in assessing the creditworthiness of artisans.

7.27 Commercial banks should also evolve schemes that combine in them both savings and borrowing operations of artisans and other small borrowers in order to promote and develop banking habits among them. The servicing costs of loan accounts of these borrowers are rather high as shown in Chapter 12 of the Report. The Commission recommends that the interest rates charged from these borrowers should be reasonable, and the

banks should attempt to reduce the costs by resorting to simpler procedures as also to a properly designed policy of differential interest rates.

7.28 With regard to the complaint about the cumbersome procedures of banks adopted in loan financing, it may be stated that the banks themselves have been aware of the need for simplification of procedures, application forms, etc. In Chapter 11 of the Report, the Commission has made certain recommendations in this regard. It may be mentioned that in pursuance of the suggestion made by the Thakkar Committee (1970)[1] regarding a model application form for financial assistance to a retailer, small trader and small business, the Reserve Bank of India has suggested in a circular, dated March 19, 1971, to all commercial banks, that they may make available such application forms in all local languages. The circular also stated that the branch officials should render help wherever necessary in filling up the forms. This is a step in the right direction and is likely to reduce the work-load on the bank personnel scrutinising the loan applications.

7.29 Small artisans and other self-employed persons may be encouraged to form themselves into co-operatives or associations wherever feasible. The co-operatives or associations could, among others, look into the financial operations of artisans and help the credit agencies with information about the concerned artisans at the time of processing of loan applications, as also issue certificates, if so needed, to vouch for the operations of the artisans concerned. Care, however, should be taken by official agencies to see that these co-operatives or associations do not misuse their powers of issuing certificates of credit-worthiness to artisans. There should be, therefore, a check from time to time by appropriate bodies in this respect.

II. Small Scale Industries

7.30 Small scale industrial units, defined as units with plant and equipment worth upto Rs. 7.5 lakhs, have by now become an integral part of the industrial structure of the economy. The value of the output generated by them as a proportion of net domestic product at factor cost was about 5.5 per cent and as a proportion of total industrial output was about 28 per cent in 1968-69.[2] Small scale industries play a significant role in employment generation, both in absolute terms and in relation to employment in medium and large scale sectors. For instance, the Annual Survey of Industries (ASI) data for 1964 show that per Rs. 1 lakh of value-added by manufacture, persons employed in small scale industries were 46 as against 29 and 21 in medium and large industrial sectors respectively. The small scale sector recorded 55 employed persons per Rs. 1 lakh of investment in fixed capital,

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1 "Report of the Committee on Banks' Credit Schemes with Reference to Employment Potential" (1970), *Reserve Bank of India Bulletin* Supplement, February 1971.

2 See "Estimates of National Product (Revised series) 1960-61 to 1968-69"—A note based on the white paper on national product released by the Central Statistical Organisation—*Reserve Bank of India Bulletin*, January 1971, pp. 74-82.

whereas the figures for medium and large scale sectors were 27 and 6 respectively.[1] It was roughly estimated that the small scale industries absorbed about 65 lakhs of persons at the end of March 1971 as against 58 lakhs five years earlier. The number of registered units by March 1969 was estimated to be 1.8 lakhs. It was at that time estimated that unregistered units were 2.6 lakhs.[2] Registered units are estimated to be over 2 lakhs by March 1971. Small scale units have played an important role in supplying ancillary components to large scale industries, and defence requirements. They have also made important strides in enlarging and improving the skill-base in the economy. They are widely dispersed all round the country and have provided opportunities for young entrepreneurs to venture into a number of new fields. These units have, however, a number of problems in regard to bank and credit and their future development would depend upon how best policies could be devised to meet them. The surveys conducted for the Commission have highlighted the nature of these problems. In this section, we shall discuss the financial needs and the problems of small scale industrial units in regard to bank credit as also the efforts of different financial institutions to meet them and the borrowing arrangements made by small scale industries themselves.

Fixed and Working Capital Needs of Small Scale Industrial Units

7.31 The credit requirements of small scale industries may be classified into those (*a*) for meeting the expenses incurred on account of (*i*) installation of plant and machinery and acquisition of land and buildings, (*ii*) proper maintenance of machinery against depreciation and obsolescence, as also renovation, modernisation and expansion of the units concerned, and (*b*) for purchase and stocking of raw materials, inventories of goods, and goods-in-process. Fixed capital needs could be met by medium and long-term loans and/or equity participation and the working capital needs by short-term advances.

Limitations in Estimating the Total Investment Requirements

7.32 A number of limitations arise in the estimation of fixed and working capital requirements of small scale units. In the first place, there is the problem of defining small scale industries. It is often difficult to differentiate between small scale industries, village or cottage industries and small borrowers or businessmen. Secondly, not all the small units are registered with the State Directorate of Industries. On the other hand, amongst the units registered with the State Directorates, quite a large number do not appear to be functioning.[3] Moreover, many of the small units do not maintain proper books of account. As a result, it is difficult to estimate the credit

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[1] The definition of a small scale industry has changed since 1964 but this does not invalidate the conclusions above.

[2] Vepa, Ram K., *Small Industry in the Seventies*, Vikas Publications, Delhi, 1971, p. 23.

[3] It is understood that about 12 per cent of the schedules sent by the Reserve Bank of India to small scale industrial units for its Survey in 1967 came back with the remark that the addressees were not traceable.

requirements for fixed and/or working capital purposes. Nevertheless, attempts have been made by the Administrative Reforms Commission (ARC) and the Office of the Development Commissioner for Small Scale Industries (DCSSIO) to give estimates of credit requirements of the small scale industrial sector for the Fourth Five Year Plan, 1969-74. The ARC felt that the sector would need by way of additional fixed investment not less than Rs. 425-480 crores, and by way of working capital requirements Rs. 700 crores by the end of 1973-74.[1] These estimates, according to the ARC, are conservative in view of the role and importance of the sector. The DCSSIO estimated additional fixed capital requirements by the end of the Fourth Five-Year Plan at Rs. 425 crores. On the basis of this estimate additional working capital requirements may be estimated at about Rs. 1,000 crores by the end of the Fourth Five Year Plan.

Sources of Finance

7.33 A characteristic feature of small scale units is that the own funds form a substantial proportion of the total assets. Most of the units are not corporate entities. The owners of small units, therefore, run a considerably larger degree of risk as compared to corporate units. The sources that usually provide the working capital requirements are the commercial banks, a few special agencies like the State Industrial and Investment Corporation of Maharashtra (SIICOM) and Gujarat Industrial Investment Corporation (GIIC), and co-operative banks. Indigenous bankers and moneylenders also advance loans for financing the working capital needs. The fixed capital needs are usually met by the State Governments (under State Aid to Industries Acts/Rules), State Financial Corporations (SFCs), National Small Industries Corporation (NSIC) which supplies machinery on hire-purchase basis, State Small Industries Corporations (SSICs), State Industrial Development Corporations (SIDCs) and State Bank of India, its subsidiaries and other commercial banks.

Supply Position of Credit

7.34 It was stated in the oral evidence before the Commission that the supply of credit by the organised financial institutions to small scale units for meeting fixed or working capital needs improved since 1967. Table 7.4 gives the latest available information about the amounts of credit given and the number of units/accounts institution-wise. It can be seen from the table that commercial banks and SFCs are by far the most important institutions for meeting the short and long-term requirements of small scale units, both from the viewpoints of the amounts lent, and the number of units assisted. Co-operative banks as well as the NSIC also have lent significant amounts to

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[1] Administrative Reforms Commission, *Report on Small Scale Sector*, December 1969, mimeographed.

TABLE 7·4—FINANCIAL ASSISTANCE TO SMALL SCALE INDUSTRIAL UNITS BY INSTITUTIONAL SOURCES

No.	Institutional Sources	Period of reference	Amounts outstanding (Rs. crores)	No. of units assisted or No. of accounts/loans
(1)	(2)	(3)	(4)	(5)
1.	Under State Aid to Industries Acts/Rules	1968-69	3·22*	11495 (No. of loans)
2.	State Financial Corporations ..	March 31, 1970	32·13	6818 („)
3.	(A) SBI Group	March 1971	197	48731 (No. of units)
	(B) 14 Nationalised Banks	„	243·6	46238 („)
	(C) Other Scheduled Banks ..	„	52·6	8581 („)
	Total (A+B+C)	„	493·1	103550 („)
4.	National Small Industries Corporation (NSIC)	March 31, 1970	16·31	About 10-12 thousand units
5.	State Industries Development Corporations (SIDCs)†	End of March 1970	2·71	Not available
6.	Advances for setting up of Industrial Estate for Small Scale Industries by Commercial Banks ..	Last Friday December 1970	3·16	28 (No. of Accounts)
7.	State Industrial and Investment Corporation of Maharashtra Ltd. (SIICOM)	March 1970	3·05	232 (No. of units)
8.	Gujarat Industrial Investment Corporation	December 31, 1970	24·10‡	Not available
9.	Life Insurance Corporation of India	March 31, 1970	1·14@	Not available
10.	Industrial Co-operative Banks ..	June 30, 1966	3·43	1005 (No. of units)
11.	Urban Co-operative Banks	„	1·17	444 („)
12.	State Co-operative Banks	„	26·95	231 („)
13.	Central Co-operative Banks	„	16·51	4254 („)

* Disbursed.
† Data of SIDCs of West Bengal, Kerala and Tamil Nadu for both large and small industries.
‡ Sanctioned.
@ Loans to industrial estates, guaranteed by Government.

Note : State Small Industries Corporations were understood to have lent Rs. 1 - 2 crores to small units.

Sources : Annual reports of the Corporations, the Report of the Office of the Development Commissioner (SSI), Reserve Bank of India Monthly Bulletins, 13th Statutory Report of the Life Insurance Corporation of India, and Report of the Working Group on Industrial Financing Through Co-operative banks.

small units. From Table 7.5, it can be seen that the number of units which received loans rose from a little less than 50,000 in March 1969 to more than 1 lakh by March 1971. Public sector banks gave loans to about 90 per cent of the units which received commercial bank credit : the State Bank of India group alone accounted for about 46 per cent of the total number of units which received bank credit. Only about 10-11 per cent of the total number of units assisted received advances from 'other scheduled banks' *i.e.*, scheduled commercial banks in the private sector. The limits sanctioned by these banks per unit have shown declines from March 1969 to March 1971 as a whole as well as in the case of each category of banks. This is an indication of the increased interest taken by banks in the public sector in financing the relatively smaller units within the small scale industrial sector. Outstanding loans of banks to this sector rose from about Rs. 262 crores in March 1969 to Rs. 493 crores in March 1971. The rate of growth of outstanding advances was spectacular in the case of the State Bank of India group, being more than 100 per cent from March 1969 to March 1971. The nationalised banks' advances rose by about 80 per cent between March 1969 and March 1971.

7.35 Information about term loans of commercial banks is also included in the data given in Table 7.5. The recorded outstanding term loans of all the scheduled commercial banks at the end of December 1970 were about Rs. 76 crores, out of which the State Bank of India group accounted for about Rs. 23 crores. It was estimated that outstanding term loans of all the scheduled banks at the end of March, 1970 were about Rs. 25 crores, the share of the State Bank of India group being placed at about Rs. 18 crores. SFCs—which are the important term lending institutions—had outstanding loans of about Rs. 30 crores in March 1970 and about Rs. 52 crores in March 1971 and about Rs. 58 crores in September 1971. These figures show that both commercial banks and SFCs are increasingly giving term loans to small scale industrial units, mainly since the nationalisation of fourteen major banks.

Promotion of Credit through the Guarantee Scheme

7.36 There has been in operation a Credit Guarantee Scheme since July 1960 to enlarge the flow of institutional credit to small scale industries. The various provisions of the scheme were progressively liberalised in the light of the requirements of the situation. Recently a Working Group set up by the Reserve Bank in April 1969 examined the scheme in detail and suggested changes which have been incorporated, with the approval of the Government of India, in the modified scheme that came into effect from February 1, 1970. It may be said that the growing involvement of the commercial banks in recent years in the financing of small scale industries was, to a considerable extent, made possible by the present credit guarantee scheme. The guarantee is now made available to all eligible advances on an automatic basis, subject, however, to each approved institution entering into an agreement with the Credit Guarantee Organisation. These approved institutions are required

TABLE 7·5—SCHEDULED COMMERCIAL BANKS' ADVANCES TO SMALL SCALE INDUSTRIES

	No. of Units	Limits in force (Rupees in crores)	Balance Outstanding (Rupees in crores)	Limits sanctioned per unit (Amount in Rs. Thousands)
State Bank of India and its subsidiaries				
March, 1969	24069	179·2	93·1	74·5
June, 1969	25902	212·6	103·0	82·1
March, 1970	36935	276·9	152·2	75·0
June, 1970	40921	292·1	163·2	71·4
December, 1970	47625	320·1	187·8	67·2
March, 1971	48731	320·4	197·0	65·7
14 Nationalised Banks				
March, 1969	20057	270·0	135·8	134·6
June, 1969	24948	312·5	148·1	125·3
March, 1970	37072	393·4	198·7	106·1
June, 1970	40146	411·8	206·3	102·6
December, 1970	46276	449·0	232·6	97·0
March, 1971	46238	459·1	243·6	99·3
Other Scheduled Banks				
March, 1969	5605	59·1	32·8	105·4
June, 1969	6133	67·4	34·5	109·9
March, 1970	7718	79·0	43·0	102·4
June, 1970	7927	80·5	44·5	101·6
December, 1970	8786	87·1	48·7	99·1
March, 1971	8581	88·8	52·6	103·5
Total				
March, 1969	**49731**	**508·3**	**261·7**	**102·2**
June, 1969	**56983**	**592·5**	**285·6**	**104·0**
March, 1970	**81725**	**749·3**	**393·9**	**91·7**
June, 1970	**88994**	**784·4**	**414·0**	**88·1**
December, 1970	**102687**	**856·2**	**469·1**	**83·4**
March, 1971	**103550**	**868·3**	**493·1**	[illegible]

Basic Features

to submit a quarterly statement containing particulars of all eligible loans and advances, which form the basis for charging the guarantee fee. The Guarantee Organisation makes surprise inspections of these institutions on a sample basis to verify the correctness of the submitted quarterly statements. The scheme covers *all* credit facilities allowed to small units (excepting the performance guarantees issued on behalf of constituents) and the guarantee cover is upto 75 per cent of the amount defaulted or the amount guaranteed whichever is lower. Moreover, the maximum amount recoverable from the Guarantee Organisation is Rs. 7.5 lakhs in respect of working capital advances and a further Rs. 2.5 lakhs in respect of term loans *per borrower*. These features of the existing guarantee scheme would pave the way for commercial banks and SFCs taking on more responsibilities in the financing of small units.

Credit Problems of Small Units: The Main Findings of the Surveys

7.37 While the estimates of fixed and working capital needs by the end of the Fourth Five Year Plan have been made, a discussion of the problems of small units is not readily available for the country as a whole in any one study. Most previous attempts to study small scale industries were confined either to a few localities/centres or to a few select industries.[1] The surveys of the Commission conducted at 21 centres from all over the country attempt to fill up this lacuna. The main findings of the data aggregated for the 21 centres are highlighted here.[2]

7.38 A total of 3,878 units was covered by the surveys. The data were classified in eight different ways, *viz.*, by 'dealings with banks', 'lines of manufacture', 'registration', size of 'total assets', 'status', 'number of persons working', 'age of unit' and 'location'. The data have been analysed by forming 2 x 2 tables of the various classifications. As such, there are no multiple interrelationships drawn out of the data collected from the Surveys. The classification 'dealings with banks' which showed the attitudes of small units to borrowing from institutions and of institutions lending to small units as well as the credit facilities provided to units, was deemed as the basic classification against which other categories of classification were cast.

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[1] *cf*: Dhar P.N., *Small Scale Industries in Delhi*, Asia Publishing House, Bombay, 1958.
Lakdawala D. T., and Sandesara J. C., *Small Industry in a big City—A survey in Bombay*, University of Bombay, Bombay, 1961.
Shetty M.C., *Small Scale & Household Industries in a Developing Economy*, Asia Publishing House, Bombay, 1963.
Reserve Bank of India, *Survey of Small Engineering Units in Howrah*, Bombay, 1964.
Rao Uma Maheswara, *Small Scale Industries—Some Economic Aspects*, Popular Prakashan, Bombay, 1965.
Rao R. V., *Cottage & Small Scale Industry in Planned Economy*, Sterling Publishers, Delhi, 1967.
State Bank of India, *Surveys of Potential for Financing Small Scale Industries at Sangli, Varanasi, Rajkot and Ranchi Centres*, Bombay, 1969 Mimeographed.

[2] Details are given in a separate volume. The selection of one or two centres from each State was made to attain as much as possible an all-India character. Educational/research institutions proved to be of great help in getting data from small scale units. It may be added that the response from small units to the survey (1967) of the Reserve Bank of India was only about 15 per cent.

Basic Features

7.39. The units dealing with commercial banks/co-operatives were classified into three groups. (*i*) The number of units which did not approach any bank/co-operative for credit facilities was 45.9 per cent of the total. (*ii*) The number of units which approached and obtained credit facilities from banks/co-operatives was 41.7 per cent of the total. And (*iii*) units which approached but were not given credit facilities were 12.4 per cent of the total. In terms of each of the three categories of units, units were classified according to their lines of manufacture, registration, age-composition, status of organisation, location in industrial estates, size of employment, size of assets and maintenance of accounts. These details are given in Statement 7.1. For purposes of analysis, 'textiles', 'rice mills and other foods' and 'vegetable oil-crushing and refining' are treated as 'conventional' lines of manufacture and the rest as 'modern'. Some interesting features shown by the table are described below.

(*i*) Units which did not approach banks for credit facilities : More of the units belonging to 'conventional' lines of manufacture did not approach commercial banks/co-operatives for credit as compared to the units among the 'modern' groups. Similarly, a large number among unregistered units, proprietary concerns, and partnership firms, and units not located in industrial estates did not approach credit institutions. A comparatively large number among the units which did not maintain proper books of account also did not approach commercial banks/co-operatives for credit.

(*ii*) Units which received credit facilities from commercial banks/co-operatives : Among these, a large proportion belong to the following categories : 'modern lines of manufacture', age-groups of '6 to 10 years', located in industrial estates, registered with State Directorates and public limited companies. Also, units with high average number of employed persons and total assets as well as a large proportion of units which maintained up-to-date accounts obtained credit facilities from institutional sources.

(*iii*) Units which approached credit institutions but were not given credit facilities : From the data given, it is difficult to draw any definite conclusions as to which categories of units were particularly unsuccessful in getting credit from institutional sources. But the fact that such units recorded low per unit figures of employment and total assets as compared to others indicates that their 'smallness' in size with attendant characteristics such as non-maintenance of accounts was probably a reason for not obtaining institutional credit.

Analysis of Financial Ratios

7.40 The financial data of the units were worked out in terms of some of the important conventional ratios as in Statement 7.2. An examination

of the statement shows that most of the ratios do not indicate any definite relationships with credit facilities. Detailed discussion in this regard is given in the technical volume. It will be sufficient to mention here that comparatively high inventory to sales ratios were recorded by units which received institutional credit facilities. The average net working capital[1] needs of small units which are given in Statement 7.3 also show that the units which received credit facilities recorded comparatively high average net working capital needs. A major proportion of net working capital needs, however, was accounted for by inventories. The figures given in the statements by themselves do not, however, point to any firm conclusions regarding the place of inventories among the factors to be taken into account by banks while examining credit proposals of small scale units.

Balance Sheet Data of Institutional and Non-Institutional Borrowings

7.41 The surveys also gave balance sheet information of institutional and non-institutional borrowings of small units. The average of such borrowings may be seen in Statement 7.4. The statement shows that per unit institutional borrowings, in respective classifications were the highest in the case of the following categories of units which belonged to (*i*) asset-size above Rs. 7.5 lakhs, (*ii*) electronics and electrical goods line of manufacture, (*iii*) 6 to 10 years of size class, (*iv*) employment group of 101 and above, (*v*) public limited companies, (*vi*) units which were registered and (*vii*) units located in industrial estates. It may be pointed out that those categories with high average per unit institutional borrowings also recorded high inventory-sales ratios in respective classifications. The average per unit of non-institutional borrowings, in respect of respective classifications, were the highest in the case of units which (*a*) borrowed from banks/co-operatives ; (*b*) were big in asset size (above Rs. 750,000) and employment size (101 and above number of persons) ; (*c*) were private limited companies, registered units and located in industrial estates ; and (*d*) belonged to the manufacture-group, chemicals, dyes, etc. The statement shows that both large and small sized units in the sample borrow from institutional and non-institutional sources. However, the extent of reliance on non-institutional sources was lower in the case of large units than in the case of smaller units. At the same time, even the smaller units obtained a major portion of their credit needs from institutional lenders. It is also revealed by the statement that average non-institutional borrowings formed a major proportion of average borrowings (institutional and non-institutional) in the case of units which did not approach any commercial bank/co-operative for credit and those which did not get institutional credit when approached. High proportions of average institutional borrowings were noticed in respect of the categories above Rs. 7.5 lakhs of assets' size, of electronics, electrical goods, etc., of units upto 5 years age, of public limited

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[1] Net working capital requirements denote inventories, manufacturing expenses and overheads *minus* net trade credit. Net trade credit is derived by adjusting the normal level of trade credit against the level of book debts.

companies, of units which had employed more than 101 persons ; of registered units and of units which were located in industrial estates. Clearly, the reliance on institutional sources was relatively high in the case of 'modern', younger and larger small scale industrial units.

Views of Units which had Borrowing Arrangements with Non-Institutional Agencies

7.42 The surveys revealed that about 19 per cent of borrowers from institutional agencies also borrowed from non-institutional agencies like the indigenous bankers, moneylenders and finance and loan companies. In all 578 units forming about 15 per cent of the total, borrowed from non-institutional sources. Most of these units resorted to these sources for working capital purposes, usually upto 30 per cent of the needs. Of the units which borrowed from indigenous bankers, about 88 per cent paid interest rates from 10 to 25 per cent per annum. Among the units which borrowed from moneylenders, about 85 per cent paid interest rates in the 10-25 per cent range per annum. About 77 per cent of the units which took loans from finance and loan companies paid between 10 and 25 per cent interest rate. In all about 77 per cent of the units which borrowed from different non-institutional agencies stated that the rate of interest paid on non-institutional borrowing was excessive. Most of these borrowers thought that promptness, flexibility and absence of documentation formalities were important advantages of non-institutional borrowing over institutional borrowing. About 24 per cent of the borrowers from non-institutional agencies stated that they faced difficulties in their dealings with these agencies. 'High charge on overdues', 'availability of loans only for short periods' and 'non-availability of loan in due time' were stressed by about 64 per cent of the units which expressed difficulties.

Trade Credit

7.43 About 40 per cent of the total number of units covered by the surveys received trade credit as a matter of course. Of these, about 27 per cent paid an interest rate of over 5 per cent while about 50 per cent stated that they paid no interest whatsoever.

Units Willing to Borrow from Institutional Agencies

7.44 The number of units which expressed awareness of institutional credit facilities were 90 per cent of the total. As much as 75 per cent of the total were interested in availing themselves of credit facilities from banks/co-operatives. About 19 per cent of the total were willing to offer machinery as security for bank accommodation. 11 per cent offered mortgage of immovable property while 14 per cent offered both machinery and mortgage of immovable property as security. Guarantees were offered by about 6 per cent of the total respondents. Only about 1.1 per cent of the total were willing to offer raw materials as security. In all about 3 per cent of the total

were willing to offer inventories as security. Unsecured advances were asked by 1.7 per cent of the total number of units interviewed.

Units which Approached Institutions without Success

7.45 It was found that out of the 54 per cent of the units which approached institutional agencies, about 23 per cent were not given credit facilities. Of these categories of units which were unsuccessful in getting loans, about 11 per cent were given advice about the procedure for applying for loans, while about 2 per cent were assured of due consideration. More than half (52 per cent of this category) were given advice about application procedures as well as assurance of due consideration by the institutions. About 3 per cent were advised by the institutions not to apply for loans whereas about 13 per cent were simply furnished with application form and were not advised about the application procedures. It was also reported that one-half of the units in this category formally applied for credit, whereas about 44 per cent did not formally apply for credit (6 per cent did not give response). About 24 per cent of such formal applications were rejected : these units were, however, not advised to apply to the institution at a later date. About 6 per cent of the formal applications were rejected but the units were advised to apply to the institution at a later date.

Units which Did Not Approach Institutions for Credit

7.46 The number of units which did not approach any commercial bank/co-operative for credit facilities was about 46 per cent of the total. Of these, 73 per cent stated that they were interested in availing of credit facilities from commercial banks/co-operatives. 62 per cent of those who showed interest in availing themselves of institutional credit said that it would be used for both fixed and working capital purposes.

Special Problems Faced by Units in Operation

7.47 The surveys also revealed that about 69 per cent of the total respondents did not respond to the question as to whether there was any special problem faced by units. About 11 per cent of the total, however, stated that there was a problem of getting regular supply of raw materials at controlled rates. Lack of finance and unfavourable attitude of bank staff and their services were pointed out by 4.2 per cent and 2.3 per cent respectively of the total units. About 2 per cent of the total units had problems of getting skilled labour and import licence. 10 per cent of the total had indicated a number of other problems.

Important Points Emerging from the Surveys

7.48 The analysis of financial data shows that the units which received institutional credit facilities were also those which recorded high ratio of inventory to sales as compared to the units which did not approach these

institutions or were unsuccessful in getting credit facilities. This would suggest that commercial banks seem to prefer, among collaterals, inventories to other types like machinery, immovable property and guarantees. On the other hand, the units willing to offer inventories as collateral were only about 3 per cent of the total. This suggests that small units experience difficulties in offering inventories as collateral for their advances and points to the need for a change in the commercial banks' attitudes and procedures towards this problem. The surveys also showed that bigger units resorted to the highest (per unit) borrowing from both institutional and non-institutional agencies, thus indicating an inference that the capacity to borrow was closely associated with the size of the units, and that among the units, the bigger ones stood a better chance to obtain credit from institutional sources. An important point that emerged from the surveys is that the majority of units consisting of proprietary concerns and partnership firms show financial ratios which are lower than the units in corporate form. If financial ratios are adopted as criteria for lending, these units would not be eligible for borrowing.

Commercial Banks' Views on Financing of Small Scale Industries

7.49 In order to have a balanced view of the credit problems of small scale industrial units, it is necessary to examine not only the difficulties of borrowers but also the views, attitudes and problems of the important lenders to this sector. The Commission had, therefore, included in its questionnaire to commercial banks some questions on this aspect. The response was around 70 per cent. Besides, the Study Group on Bank Procedures appointed by the Commission had sent to 28 banks a questionnaire relating to procedural matters in small industry financing and it received replies from 71 per cent of them. The answers give not only the arrangements made by the banks themselves to meet the growing credit needs of small scale industries but also the problems encountered by them in the process of sanctioning loans. From the replies to the Commission's questionnaire it was found that all the public sector commercial banks have either separate small scale industries cells at their Head Offices and/or development departments at the local head offices.[1] These cells/departments review the progress achieved on a monthly or quarterly basis. Most of the scheduled banks in the private sector, foreign banks and non-scheduled banks do not have any special set-up to deal with credit proposals of the small industries sector.

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1 In terms of the scheme for re-organisation of management of the 14 nationalised banks, one of the Directors of the 14 nationalised banks would be competent to represent artisans. Yet another of the Directors would have special knowledge or practical experience in respect of one or more matters which are likely to be useful for the working of the bank. It may be mentioned that Section 10-A(2) of the Banking Regulation Act, 1949, gives an idea of the subjects on which special knowledge or practical experience will be of use to the bank. One of the subjects mentioned is small scale industry.

"The Nationalised Banks (Management and Miscellaneous Provisions) Scheme 1970", *Reserve Bank of India Bulletin*, January 1971. pp. 42-55.

Initial Assessment Procedures

7.50 The answers to the Study Group's questonnaire show that loan applications are processed by branch agents, regional offices and small scale Industries' departments at Head Offices. Loan sanctions obviously are made according to the discretionary powers vested in them. Branches, it was stated, have no authority to reject credit proposals from small scale units without reference to their head office. Some banks have technically qualified officers for processing the applications. Besides, technical reports on some of the proposals are obtained from the Small Industries Service Institutes, Directorates of Industries, etc. A large number of respondent banks considered it desirable to create cells of technically qualified officers at different group centres. They expected that the officers should visit the units for initial assessment and after the loan sanction, periodically for scrutiny of the use of the sanctioned loans.

Criteria for Sanctioning Loans

7.51 Next we may examine the criteria that the banks adopt for sanctioning loans to small units. In reply to the Commission's questionnaire, some banks stated that they adopted one or more of the following criteria while others did not give any precise indication in this regard : (*i*) the borrower should have sufficient technical assistance/experience in the proposed line of manufacture ; (*ii*) the unit should have assured supply of factors of production, and demand for its products ; (*iii*) the entrepreneur should make at least some contribution to the cost of the project ; (*iv*) the unit should get the necessary clearance from the municipal authorities and should not be located in a residential building ; and (*v*) the unit should provide all the necessary and required information. In answer to the Study Group's questionnaire, some banks considered the ratio of 1: 3 of owned to borrowed funds as satisfactory but many of them also relax this norm, depending upon size of unit and purpose of borrowing.

Difficulties in Processing Credit Proposals and the Suggestions to Overcome Them

7.52 The important difficulties faced by commercial banks in processing credit proposals from small units are stated to be (*a*) absence of properly maintained books of account by small units ; (*b*) inability on the part of small units to furnish information regarding cost of production and profitability ; (*c*) late submission of stock statements with the result the value of the security given cannot be easily ascertained on a given date ; and (*d*) want of trained personnel. Commercial banks felt that if agencies like Small Industries Service Institutes provide guidance to units in respect of preparation of projects at reasonable rates and give their feasibility reports quickly to lending institutions, and if entrepreneurs are educated and trained about maintenance of accounts and financial management, the important difficulties in processing credit proposals would be met.

Time Taken for Disposal of Loan Applications—Measures for Improvement

7.53 With regard to the procedure adopted to ensure quick disposal of credit proposals, banks responding to the Study Group's questionnaire, have generally advocated that (*a*) branches/regional offices/small scale industries departments at Head Offices should be instructed to deal with the applications expeditiously ; (*b*) a register should be maintained giving the date of receipt of applications and the date of their disposal ; (*c*) weekly reports about arrears (in the matter of disposal) should be sent to Head Offices. Most banks have prescribed a time period of fifteen days for disposal of applications. Field Officers of banks are asked to collect the necessary data that are not provided in the application. Officials from head offices would scrutinise every now and then the register of dates of receipt and disposal of applications of branches/departments. Some senior officials also visit branches from time to time. Moreover, the head offices also call for pending lists of applications regularly.

Provision of Technical Advice and Technical Assistance

7.54 The majority of the banks were agreeable to make available the services of technical personnel employed by them to units for consultations in general and for technical service and managerial consultancy in particular. Some banks felt that technical services and managerial consultancy should be provided free while some others favoured levy of reasonable rates. Those banks which did not favour provision of such technical services by banks argued that they should be provided by specialised institutions created for the purpose.

Contribution of Co-operative Banking to the Development of Small Scale Industries

7.55 We have seen in Table 7.4 that advances of State and central co-operative and industrial co-operative banks and urban banks to the small industries' sector totalled about Rs. 48 crores as on June 30, 1966. Co-operative—apex and central and industrial—banks granted financial accommodation to 5,490 processing societies, weavers' societies and other industrial societies while urban banks lent to 444 small scale industrial units. These data were furnished by the Working Group on Industrial Financing through Co-operative Bank,[1] (the Damry Group) on the basis of special returns received by the Group. Figures of assistance to small industries for later years are not available from the existing co-operative statistics, because advances for all non-agricultural purposes are at present clubbed under one heading.

7.56 The Report of the Damry Group may be taken as providing an important basis for further progress in the field of industrial financing by co-

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[1] *Report of the Working Group on Industrial Financing Through Co-operative Banks,* Part I, Reserve Bank of India, Bombay, 1968.

operatives. The Group's main recommendations relating to the financial aspects are given here. These recommendations relate to : (*a*) strengthening of capital structure of industrial co-operative societies ; (*b*) financing the block and working capital needs of industrial co-operative societies ; and (*c*) the role of the Reserve Bank of India with reference to these recommendations. The Group proposed that the State Governments should contribute to the share capital of industrial co-operative societies (other than processing societies) in cases where the membership of the societies is drawn from the 'weaker' sections of the community. It also emphasised that urban co-operative banks should be organised in areas where there is a sufficient concentration of cottage and small scale industries carried on by individual units. Urban banks, moreover, may be allowed to extend their area of operations and to open branch offices anywhere in the district of the State where there are good prospects for business with industrial units, which are at present not being served by local urban co-operative banks. It maintained that apart from providing working capital loans to small units, at least the bigger urban co-operative banks may provide block capital loans to small units. It felt that any restrictions that exist in this regard may be removed from the bye-laws.

7.57 The Group suggested a scheme of raising funds for financing the block capital requirements of co-operative processing societies through bonds or debentures preferably to be issued by State co-operative banks in cases in which the normal sources of finance are not available for meeting the block capital needs.

7.58 With a view to facilitating a larger flow of funds for financing the industrial sector through co-operative banks, the Group suggested that the Reserve Bank may, among other things, expand the list of approved cottage and small scale industries for the purpose of financial accommodation under Section 17(2)(*bb*) of the Reserve Bank of India Act and provide loans to the State Governments from the National Agricultural Credit (Long-term Operations) Fund to enable them to contribute to the share capital of industrial co-operative societies other than processing societies whose membership is drawn from the 'weaker' sections of the community.

7.59 Accordingly, the Reserve Bank of India in October 1968 enlarged the list of approved cottage and small scale industries for financial accommodation under Section 17(2)(*bb*) or 17(4)(*c*) of the Reserve Bank of India Act to cover 22 broad groups, besides the weaving industry. It decided to make loans and advances to State co-operative banks for financing the production and marketing facilities of these industries. The most important point for determining the eligibility of any cottage or small scale industry for accommodation, however, is not that it is in the approved list but it possesses financial soundness and viability or potential viability of the individual unit. The Reserve Bank indicated that the norms/standards for assessing the viability/potential viability *in each case* may be prescribed by the State Government and these may be advised to it along with the loan application.

7.60 It may, however, be said that since the submission of the Report of the Working Group, the quantum of finance to cottage or small scale industries by the co-operative banking sector has not increased in any significant manner, as evidenced by the extent to which the advances of the co-operative credit institutions were covered under the Credit Guarantee Scheme. The main reasons for low and sluggish growth in industrial financing by co-operatives may be stated thus: (*a*) Industrial co-operative societies are very few in many regions. Moreover, industrial co-operative banks are mainly concentrated in Mysore State, with a few in Maharashtra, Gujarat and the Punjab. Similarly, urban banks are found mainly in four States—Maharashtra, Gujarat, Tamil Nadu and Mysore. Also within each State, their distribution is uneven as between different parts. (*b*) There is no competent technical staff worth mentioning to deal with industrial financing in co-operative banks (*c*) The bye-laws of industrial/urban banks are at times restrictive, and do not allow them to meet the complete credit requirements of units. (*d*) Even if the bye-laws are amended, almost all the credit agencies in the co-operative sector suffer from an acute paucity of resources.

7.61 These reasons are corroborated by the answers received by the Commission to the questions relating to industrial financing posed to co-operative banks. The degrees of response to the questionnaire were 48 per cent of the 25 State co-operative banks and about 30 per cent of 133 selected central co-operative banks. 7 out of 21 selected industrial co-operative banks and 19 out of 49 selected urban co-operative banks also sent replies.

7.62 Regarding the question whether there were any arrangements in the banks to promote the growth of cottage or small scale industries, most central, industrial and urban co-operative banks stated that they did not have any special arrangements. Some central co-operative banks needed such arrangements, and a few of these felt that the industries department of the Government should provide them with technical staff to go into questions relating to credit proposals and other allied matters. Some central co-operative banks stated that industrial co-operative banks should serve the purpose while some others felt that the co-operative and industries departments of the State were the proper authorities to undertake such promotional activities. Some of the respondent central co-operative banks thought that specialised institutions with competent technical staff could promote cottage or small industries. Nine central banks seemed to have set up industrial sections. One central bank had appointed a loan officer and two assistants in the industrial section. None of the industrial and urban co-operative banks barring two or three of the latter, had any special arrangements for promoting the small industries sector. But it may be noted that most banks complained of paucity of resources, as well as of negligible number of industrial co-operative societies in existence in their areas of operation. In the case of urban banks, only 4 have stated that they were well equipped to deal with credit proposals. One bank was said to be training its management staff for

scrutiny of loan proposals, with the help of a nationalised commercial bank but it felt that the applicants do not co-operate and do not provide all the needed financial details to facilitate a quicker processing of credit proposals.

7.63 As regards the arrangements regarding financial management and technical assistance rendered by co-operative banks to units, none of the reporting State and central co-operative banks, industrial co-operative and urban banks seem to have had them, obviously because the extent of industrial financing was relatively insignificant. The apex banks and one urban bank had suggested that central co-operative banks may be asked to maintain technical personnel or a cell of technical staff for the purpose. On the other hand, one of the suggestions of central banks, was that apex banks should make an arrangement for financial and technical assistance. Two other important suggestions of central banks were that banks should appoint technical heads, preferably one for every two districts and the State Government should make available technical staff to central banks free of cost.

7.64 In answer to the question of use of financial ratios for credit appraisals, only two State co-operative banks, 6 central co-operative banks and one each among industrial and urban banks had stated that they made use of these ratios. But many banks including those that used the financial ratios felt that it was enough to probe into net disposable resources of the borrowers instead of adopting the sophisticated financial ratios.

7.65 To the question whether financial accommodation to cottage or small scale industries or industrial societies was denied during the past one year, the majority of the banks—apex and central, industrial and urban—stated that they had not denied such accommodation. But many apex banks maintained that most of the industrial societies and small units do not work economically and usually borrowed heavily from the Government which has the first charge on their assets. Seven central banks reported that they could not provide finance only when there were no funds or the application was received late or the credit proposed was not feasible. Paucity of funds was the reason stated for the only denial of a long-term loan proposal by an industrial co-operative bank.

7.66 The basis for sanctioning credit limits for industrial societies and small units was usually against saleable assets, and rarely against book debts, because the latter were said to be risky and not easily recoverable. Five of the respondent central banks, however, had fixed cash credit limits against book debts to weavers' societies, co-operative stores, urban co-operative banks, salary earners' societies upto 60 per cent of their current outstandings in any one bank.

7.67 The respondents were aware that industrial societies and cottage or small scale industries which borrowed from co-operative credit agencies

also took loans from other financial institutions. The important reasons for such multi-source borrowing were: (*a*) there was little co-ordination between the bank and other agencies; (*b*) other financial institutions usually gave loans on easy terms at low enough rates of interest; and (*c*) term loans were usually not provided by co-operative banks. While one central bank argued that borrowing from commercial banks by units which have loan accounts with it can take place only with its prior permission, another central bank had stated that it did not finance those which borrowed from other credit agencies. It was felt by a central bank that no institution should be allowed to borrow from more than one source for the same purpose. On the other hand, multi-source borrowing by small industrial units was acceptable to some urban co-operative banks. In general, it seemed that multi-source borrowing for single purpose was not favoured by co-operative banks.

7.68 It may be pointed out here that a majority of the respondent central co-operative banks agreed that the entire financial accommodation of industrial co-operative societies and cottage or small scale industries should be from only one institution, even though many of them did not indicate any progress made in this regard owing to paucity of funds. A handful of central banks, however, felt that a separate specialised institution (or institutions) may be set up for the purpose. A few industrial co-operative banks as also urban banks seemed to agree with the view that only one credit agency should be associated with financing of one unit. But paucity of resources and administrative problems appeared to be the limitations in the practical implementation of providing the entire financial requirements of the units concerned by one credit agency.

Oral Evidence

7.69 The oral evidence[1] tendered before the Commission has generally stressed that commercial banks should take special steps in regard to liberalising of credit to small units. Differential margins in lending as between stronger and weaker units so as to favour the latter, special consideration to units in backward areas, introduction of revolving credits, creation of a certain quantum of funds for small scale industries, term loan grants on the basis of reports from Small Industries Service Institutes, hypothecation loans especially in rural areas, provision of market and product guidance by commercial banks, and encouragement to technocrats to build up equity capital with tax incentives, were some of the important suggestions that were given during the oral evidence.

Recommendations for Promotion and Development of Small Scale Industries

7.70 A careful examination of the views of the borrowers and the important lending agencies, *viz.*, commercial and co-operative banks as also the

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1 The oral evidence was given by State Governments, commercial banks, chambers of commerce, other commercial and industrial bodies, Small Scale Industries' Associations/Federations, economists and individuals.

information supplied in the course of the oral evidence, establishes beyond doubt that the important policy objective of promotion and development of small scale industries has to be realised by measures that affect not only the credit aspect but also other aspects. Credit by organised institutional agencies is only one element, albeit an important one, among many, such as the availability of raw materials, water and power supply, marketing arrangements and technical services. Obviously, therefore, measures to encourage small units will have to be taken on a number of fronts and by a number of bodies.

7.71 Commercial banks have since the nationalisation of 14 major banks taken some measures for the improvement of loan procedures and quick disposal of credit proposals. It is also seen that they have been making efforts to employ more technical personnel for processing the applications. Yet, it would be difficult for every commercial bank to organise on its own a vast network of consultancy services to cater to the requirements of widely scattered small units. The co-operative banks have still less ability to do so in view of their paucity of resources. The Commission, therefore, is in general agreement with the view of the Thakkar Committee[1] that there should be non-financing multi-purpose agencies. The Commission, however, considers that the proposed agencies should be purely advisory bodies, providing advice and guidance to small industrial units regarding the availability of raw materials, water supply, electricity, etc., marketing prospects, availability of institutional sources of finance and technical matters. It would be unrealistic to expect these agencies to advise the units about the management of resources which basically is the function of an entrepreneur. Also it is not necessary for these agencies to collect information about the prospective borrowers, if credit information agencies as recommended in Chapters 11 and 21 of the Report are brought into existence. Some commercial banks, however, have already established a few service agencies, but these agencies, to be really useful, must function at the district level. Banks should be encouraged to provide the consultancy and other technical services wherever they can, but it may not be possible for them to organise multi-service agencies on the wide-scale that is required, and provide the comprehensive service that will be necessary.

7.72 In the Commission's view, the State Governments should, therefore, take the main initiative in setting up the multi-services agencies which should serve both the commercial and co-operative banks. Commercial banks could, however, render help in this regard. The Commission believes that the State Governments already have the necessary organisational apparatus for the purpose. Besides the Directorates of Industries and the expertise available with the industries departments, the Small Industries Service Institutes, the district officers and development officers could play a crucial role in the promotion and development of small scale sector of the region. As regards the location of these agencies, it would depend on the amount of

[1] Please see footnote to paragraph 7·28.

business that each agency will have. There could thus be one or more than one agency per district or one agency could serve more than one district. The proposed agencies would require the services of technically qualified persons but they should not be overburdened by a large permanent staff.

7.73 The advances policy towards small scale industries would have to be functional in the sense that credit sanction should be judged in the light of their potential productive capacity. Co-operative credit agencies have already been instructed to finance all viable or potentially viable units falling within the approved list of cottage and small scale industries. The surveys conducted at the 21 centres have brought to light the fact that while the units which received bank credit had relatively high inventory to sales ratio, a very small proportion of the total respondents were willing to offer inventories as security. This indicates the security-orientation in the making of loans. Banks should give advances to viable units with an eye on the end use of their loans and simplify loan procedures on the lines suggested in Chapter 11 of the Report. Small units on their part, should ensure the use of loans for purposes for which they were specifically asked. To promote this end, they should supply all the necessary information to lending agencies for proper assessment of the units' credit needs both on account of fixed and working capital purposes.

7.74 Vital information about small scale units is often not available mainly because many of them do not maintain proper books of account. This may be explained by the high preponderance of proprietary concerns and/or partnership firms, which do not employ accountants on a permanent basis. Some of these units may not be fully aware of proper accounting systems. Part of the difficulty could be that the present accounting practices and procedures are suitable for units which operate on a larger scale. This is a field where the Institute of Chartered Accountants of India can effect some simplifications in practices and procedures and also educate the small units in them. The proposed multi-services agencies also may provide facilities of accounting at reasonable charge. At the same time, small units must on their own strive to maintain proper accounts so that they could thereby improve their working and thus facilitate the work of the lending agencies to deal with their credit proposals expeditiously.

7.75 It is seen that a large majority of small units operate on a slender capital base having little chances of expansion on their own. They also seem to express 'reluctance to take in equity capital' from institutional agencies, particularly commercial banks, mainly because they fear that it "may interfere with the management of business"[1]. On the other hand, there is no evidence to show that institutional agencies, and more particularly commercial banks are eager to get into problems of management of those units whose equity base has been improved by them but which are not operating efficiently. In

[1] Vepa, Ram K., *Ibid*, p. 198

the circumstances,banks may consider whether they can grant soft-term loans, in collaboration with other term-lending institutions to bridge the gap in equity capital which the small units face. In this context, a suggestion has been made for an all-India Small Scale Industries Bank. The Commission is of the view that there is no case for setting up a separate apex financial body for small industrial units for reasons that are outlined in Chapter 16 of the Report.

7.76 Equity capital base could, however, be improved by small proprietary/partnership units by converting themselves to corporate forms of organisation. But such a conversion on a mass scale is not likely to take place, since there are many aspects like the present tax structure, administrative procedures as well as time and expenditure involved in such conversion, etc., which need to be examined. Although the Commission has not gone into these questions as they are outside its terms of reference, it feels that they need to be carefully examined by the concerned authorities with a view to facilitating the flow of equity capital to this sector of the economy.

7.77 There are many technically qualified persons who are unemployed but can set up small scale industrial units, if they obtain enough equity capital. Similarly there are many mechanics and other skilled technicians at present working in industrial units who are also capable of setting up such units, if they get adequate finance. Where such persons are able to bring forth projects which are technically feasible but where equity capital is not adequate for the purposes of these projects, banks as also term lending institutions should consider providing a certain amount of soft loans.

7.78 It is necessary for commercial banks as well as term-lending institutions and urban co-operative banks to take into account the advice and guidance of the proposed multi-service agencies, and Small Industries Service Institutes while evaluating the new credit proposals. Co-ordination among the lending agencies is essential if all the genuine credit requirements of small units should be met. From the evidence tendered before the Commission, it was found that in some cases, the units which secured loans from the term-lending institutions could not obtain working capital loans from commercial banks and *vice-versa*. It is necessary to ensure that the credit given by a lending agency for a viable small unit is not wasted owing to lack of supplemental credit support from other lending agencies.

7.79 The Commission considered in this context a suggestion from some institutional agencies that a borrowing unit should maintain its loan account for working capital purposes with only one bank or lending agency. This suggestion has the advantage of helping the lending agency to verify the end-use of funds and minimising the possible misuse of funds for such purposes as speculation, hoarding, over-trading, inter-locking of funds, etc. Moreover, the suggestion will facilitate a better control by banks over advances and help

to realise the goals of credit planning. On the other hand, it may be pointed out that in the event of dislocation of work for any reason in the particular bank with which the loan accounts are maintained under this suggestion, the account holders are likely to be put to considerable inconvenience and financial loss. The Commission suggests that any loss incurred by the constituents owing to such dislocation of work should be reimbursed by the concerned bank. Besides, the constituent, if he so desires, should be able to shift his account to another bank without any difficulty in case he is not satisfied with the operation of his account. The fact that a small borrowing unit has limited access to the sources of borrowing makes it incumbent on the bank personnel to make every effort to nurture and nourish the constituents with diligence. The credit needs of small units are often urgent and they should be met quickly, ensuring at the same time proper end-use of funds. In this context, development of credit information agencies in different places and initially in important cities and metropolitan towns will be of immense help. In smaller towns, credit information could be collected till the agencies come into being by informal meetings of representatives of commercial and co-operative banks for purposes of co-ordinating the flow of credit to priority sectors. It is, however, necessary to ensure that the lending agencies, especially commercial banks, are made responsible for exchange of credit information as well as co-ordination of credit efforts.

Concluding Observations

7.80 In conclusion the Commission would like to emphasise that extension of credit to the priority sectors should not be at the expense of meeting the legitimate credit needs of other sectors. It has to be recognised that in a situation where the demand for credit exceeds the available supply, the allocation of credit has to be made in the light of the objectives of overall economic policy. At the same time, in allocating credit the linkages between the different sectors of the economy should be borne in mind as economic activities are inter-connected and denial or insufficient sanction of credit to one sector will have repercussions on other related sectors. For instance, many of the large scale industries are producers of raw materials for small scale and cottage industries and, in some cases, the former are the consumers of the products of the latter. In credit planning, therefore, a total view has to be taken of the credit requirements of all the sectors of the economy in consonance with the growth rates envisaged for them in the plans.

STATEMENT 7·1—DISTRIBUTION OF UNITS CLASSIFIED ACCORDING TO DEALINGS WITH BANKS/CO-OPERATIVES BY LINES OF MANUFACTURE, REGISTRATION, AGE COMPOSITION, ORGANISATIONAL STATUS, LOCATION IN INDUSTRIAL ESTATE, EMPLOYMENT, ASSETS' SIZE AND MAINTENANCE OF ACCOUNTS

ALL-INDIA

	Percentage of units which did not approach any commercial bank/co-operative for credit facilities	*Percentage of units which approached and got credit facilities from commercial banks/co-operatives*	*Percentage of units which approached but were not given credit facilities*	*Total*
	1	2	5	4
I. *Lines of Manufacture*				
a. Textiles	*50·7*	*37·7*	*11·6*	*100*
b. Rice Mills and Other Foods ..	*64·8*	*21·8*	*13·4*	*100*
c. Vegetable oil crushing and refining	*46·9*	*36·8*	*16·3*	*100*
d. Light engineering goods	*41·4*	*48·2*	*10·4*	*100*
e. Manufacture of Metal Products ..	*39·7*	*48·8*	*11·5*	*100*
f. Electronics, electrical goods, etc. ..	*27·0*	*61·1*	*11·9*	*100*
g. Chemicals, Dyes	*27·5*	*58·7*	*13·8*	*100*
h. Plastics	*45·3*	*43·8*	*10·9*	*100*
i. Others (Leather, Paper Products)	*51·4*	*34·6*	*14·0*	*100*
Total	**45·9**	**41·7**	**12·4**	**100**
II. *Registration*				
a. Registered	*36·9*	*50·5*	*12·6*	*100*
b. Not Registered	*74·3*	*13·9*	*11·8*	*100*
c. No Response	*28·6*	*57·1*	*14·3*	*100*
Total	**45·9**	**41·7**	**12·4**	**100**
III. *Age*				
a. 5 years	*46·8*	*39·3*	*13·9*	*100*
b. 6 to 10 years	*43·0*	*45·0*	*12·0*	*100*
c. 11 to 15 years	*45·1*	*43·1*	*11·8*	*100*
d. 16 years and above	*48·9*	*39·7*	*11·4*	*100*
e. No Response	*15·4*	*69·2*	*15·4*	*100*
Total	**45·9**	**41·7**	**12·4**	**100**

STATEMENT 7·1—DISTRIBUTION OF UNITS CLASSIFIED ACCORDING TO DEALINGS WITH BANKS/CO-OPERATIVES BY LINES OF MANUFACTURE, REGISTRATION, AGE COMPOSITION, ORGANISATIONAL STATUS, LOCATION IN INDUSTRIAL ESTATE, EMPLOYMENT, ASSETS' SIZE AND MAINTENANCE OF ACCOUNTS

ALL-INDIA—(*Contd.*)

	(1)	(2)	(3)	(4)
IV. *Organisation Status*				
a. Public Ltd. Cos.	*18·0*	*69·2*	*12·8*	*100*
b. Private Ltd. Cos.	*26·8*	*67·5*	*5·7*	*100*
c. Partnership Firms	*39·9*	*48·6*	*11·5*	*100*
d. Proprietary concerns	*54·8*	*31·0*	*14·2*	*100*
e. Co-operative Societies	*38·5*	*50·0*	*11·5*	*100*
f. Others	*60·0*	*30·0*	*10·0*	*100*
g. No Response	—	*100·0*	—	*100*
Total	**45·9**	**41·7**	**12·4**	**100**
V. *Location*				
a. Located in Industrial Estate ..	*26·6*	*65·2*	*8·2*	*100*
b. Not located in Industrial Estate ..	*51·7*	*34·6*	*13·7*	*100*
c. No Response	*25·0*	*75·0*	—	*100*
Total	**45·9**	**41·7**	**12·4**	**100**
VI. *Maintenance of Accounts*				
a. Maintained up-to-date accounts ..	*40·7*	*47·2*	*12·1*	*100*
b. Did not maintain up-to-date accounts	*75·0*	*10·3*	*14·7*	*100*
c. No Response	*66·1*	*21·7*	*12·2*	*100*
Total	**45·9**	**41·7**	**12·4**	**100**
VII. *Employment*				
Persons working	*29*	*63*	*8*	*100*
(Average number of persons per unit..	12	29	13	19)
VIII. *Size of Assets*				
Total Assets	*22·7*	*70·2*	*7·1*	*100*
(Average per unit (Rs 000's)	95·78	326·56	111·50	194·02)

Source: Aggregative Data of the Surveys at 21 Centres.

STATEMENT 7·2—SOME IMPORTANT RATIOS

	Profits as % of sales	Profits as % of net worth	Profits as % of produc-tion at cost	Net worth as % of total assets	Sales as % of total assets	Inven-tories as % of sales	Book debts as % of sales
	1	2	3	4	5	6	7
I. *Dealings with Banks*							
(*i*) Units which did not approach any commercial bank/co-operative ..	*15·2* (3)	*36·7* (3)	*17·8* (3)	*68·4* (1)	*165·7* (1)	*20·1* (2)	*8·7* (2)
(*ii*) Units which approached and got credit	*15·7* (2)	*63·6* (1)	*18·7* (2)	*37·6* (3)	*152·2* (3)	*25·2* (1)	*10·1* (1)
(*iii*) Units which approached but were not given credit facilities	*16·1* (1)	*40·6* (2)	*19·2* (1)	*63·5* (2)	*159·9* (2)	*17·9* (3)	*6·5* (3)
II. *Total Assets* (Rs. in thousands)							
(*i*) 0— 25	*15·1* (6)	*50·4* (6)	*17·8* (6)	*72·2* (1)	*241·1* (1)	*22·4* (3)	*5·5* (10)
(*ii*) 25— 50	*17·4* (4)	*51·7* (4)	*21·1* (4)	*69·5* (2)	*206·2* (2)	*25·9* (2)	*12·8* (1)
(*iii*) 50—100	*12·6* (9)	*38·9* (9)	*14·5* (9)	*64·8* (3)	*199·3* (3)	*20·6* (7)	*7·4* (9)
(*iv*) 100—150	*12·3* (10)	*34·6* (10)	*14·0* (10)	*58·2* (4)	*16·42* (5)	*20·6* (7)	*9·0* (7)
(*v*) 150—200	*13·5* (7)	*42·1* (8)	*15·6* (7)	*57·2* (5)	*178·3* (4)	*18·0* (9)	*9·2* (5)
(*vi*) 200—250	*16·9* (5)	*51·3* (5)	*20·4* (5)	*52·9* (7)	*160·5* (7)	*20·7* (6)	*9·1* (6)
(*vii*) 250—300	*17·6* (3)	*42·2* (3)	*21·4* (3)	*54·8* (6)	*162·3* (6)	*18·9* (8)	*9·6* (3)
(*viii*) 300—500	*17·7* (2)	*48·4* (7)	*21·5* (2)	*49·2* (8)	*134·9* (10)	*22·2* (4)	*9·4* (4)
(*ix*) 500—750	*18·9* (1)	*71·5* (1)	*23·3* (1)	*40·3* (9)	*152·7* (8)	*21·6* (5)	*7·9* (8)
(*x*) Above 750	*13·4* (8)	*58·3* (2)	*15·4* (8)	*32·7* (10)	*142·4* (9)	*30·2* (1)	*11·7* (2)
III. *Lines of Manufacture*							
(*i*) Textiles	*19·1* (2)	*56·2* (3)	*23·6* (2)	*63·8* (1)	*187·7* (3)	*20·2* (7)	*6·9* (7)
(*ii*) Rice Mills & Other goods	*9·9* (9)	*48·4* (7)	*10·9* (9)	*49·0* (3)	*240·3* (2)	*16·3* (8)	*5·0* (9)
(*iii*) Oil crushing & Refining..	*13·4* (8)	*118·4* (1)	*15·4* (8)	*48·1* (4)	*424·4* (1)	*60·8* (9)	*5·5* (8)
(*iv*) Light Engineering Goods	*16·2* (5)	*46·8* (8)	*19·3* (5)	*41·0* (6)	*119·0* (8)	*26·4* (2)	*12·1* (3)
(*v*) Metal Products	*14·8* (7)	*48·7* (5)	*17·3* (7)	*46·1* (5)	*152·1* (5)	*26·0* (3)	*9·7* (5)
(*vi*) Electronics, Electrical Goods, etc.	*16·7* (3)	*51·6* (4)	*20·1* (3)	*38·8* (8)	*119·5* (7)	*32·6* (1)	*13·9* (1)
(*vii*) Chemicals, dyes, etc. ..	*20·2* (1)	*83·1* (2)	*25·3* (1)	*38·3* (9)	*157·5* (4)	*25·9* (4)	*7·9* (6)
(*viii*) Plastics	*15·6* (6)	*41·2* (9)	*18·4* (6)	*40·4* (7)	*107·2* (9)	*25·5* (5)	*13·8* (2)
(*ix*) Others (Leathers, Paper products, etc.)	*16·3* (4)	*49·0* (6)	*19·4* (4)	*49·7* (2)	*149·7* (6)	*24·8* (6)	*10·8* (4)

STATEMENT 7·2—SOME IMPORTANT RATIOS—(*Contd.*)

	1	2	3	4	5	6	7
IV. *Age of Unit*							
(*i*) Upto 5 years	*15·2* (2)	*42·3* (4)	*17·9* (2)	*49·0* (1)	*136·7* (4)	*23·9* (3)	*8·4* (4)
(*ii*) 6 to 10 years	*14·3* (3)	*47·1* (3)	*16·6* (3)	*43·7* (4)	*144·4* (3)	*24·3* (1)	*10·1* (2)
(*iii*) 11 to 15 years	*13·5* (4)	*50·9* (2)	*15·6* (4)	*46·2* (3)	*174·4* (1)	*24·2* (2)	*8·8* (3)
(*iv*) Above 16 years ..	*18·4* (1)	*57·1* (1)	*22·6* (1)	*47·4* (2)	*172·3* (2)	*21·9* (4)	*10·2* (1)
V. *Status of Unit*							
(*i*) Public Limited Companies	*20·1* (1)	*225·4* (1)	*25·1* (1)	*10·0* (6)	*112·5* (6)	*49·8* (1)	*24·4* (1)
(*ii*) Private Limited Companies	*14·8* (4)	*71·2* (2)	*17·4* (4)	*31·8* (5)	*152·5* (2)	*25·8* (2)	*8·4* (5)
(*iii*) Partnership Firms ..	*15·6* (3)	*53·1* (3)	*18·4* (3)	*51·4* (3)	*175·4* (1)	*20·7* (5)	*8·9* (3)
(*iv*) Proprietary Concerns ..	*15·9* (2)	*35·8* (4)	*19·0* (2)	*53·5* (2)	*120·3* (4)	*25·5* (3)	*10·0* (2)
(*v*) Co-operative Societies..	*7·7* (6)	*15·7* (6)	*8·3* (6)	*61·2* (1)	*124·5* (3)	*18·6* (6)	*8·8* (4)
(*vi*) Others	*10·2* (5)	*31·4* (5)	*11·4* (5)	*39·0* (4)	*119·4* (5)	*20·9* (4)	*8·8* (4)
VI. *No. of Persons Working*							
(*i*) Less than 5	*13·8* (6)	*31·0* (7)	*16·0* (6)	*69·3* (1)	*156·2* (4)	*25·2* (2)	*7·2* (7)
(*ii*) 6 to 10	*16·2* (2)	*38·2* (5)	*19·3* (2)	*63·5* (2)	*119·6* (5)	*22·8* (5)	*9·7* (4)
(*iii*) 11 to 20	*14·5* (4)	*37·1* (6)	*16·9* (5)	*54·8* (3)	*140·5* (6)	*22·1* (6)	*9·2* (5)
(*iv*) 21 to 30	*14·8* (5)	*57·5* (4)	*17·4* (4)	*44·5* (4)	*173·0* (1)	*22·0* (7)	*7·9* (6)
(*v*) 31 to 50	*15·4* (3)	*61·9* (3)	*18·3* (3)	*39·0* (5)	*156·2* (4)	*24·4* (3)	*9·9* (3)
(*vi*) 51 to 100	*20·7* (1)	*103·9* (1)	*26·1* (1)	*31·9* (7)	*160·1* (3)	*23·1* (4)	*10·9* (1)
(*vii*) 101 and above ..	*13·0* (7)	*62·3* (2)	*14·9* (7)	*34·8* (6)	*167·4* (2)	*25·9* (1)	*10·5* (2)
VII. *Registration of Unit*							
(*i*) Registered	*15·7* (1)	*52·7* (1)	*18·7* (1)	*45·3* (2)	*15·3* (2)	*24·3* (1)	*9·9* (1)
(*ii*) Not Registered ..	*14·6* (2)	*47·8* (2)	*17·1* (2)	*57·1* (1)	*187·4* (1)	*18·2* (2)	*7·0* (2)
VIII. *Location of Unit*							
(*i*) Located in Industrial Estate	*15·1* (2)	*49·7* (2)	*17·8* (2)	*39·9* (2)	*131·4* (2)	*24·4* (1)	*10·5* (1)
(*ii*) Not located in Industrial Estate	*15·9* (1)	*53·9* (1)	*18·9* (1)	*50·7* (1)	*172·3* (1)	*22·9* (2)	*9·0* (2)

Note : Figures in brackets give ranks in respective classification in a descending order.
Source : Derived from the aggregative data of the Surveys.

STATEMENT 7·3—AVERAGE NET WORKING CAPITAL NEEDS

(Rs. in Thousands)

	Average Net Working Capital Needs
I. *Dealings with Banks*	
(i) Units which did not approach any commercial bank/co-operative	44·8
(ii) Units which approached and got credit facilities	171·1
(iii) Units which approached but were not given credit facilities	44·2
II. *Total Assets (Rs. in Thousands)*	
(i) 0 — 25	11·2
(ii) 25 — 50	24·3
(iii) 50 — 100	39·3
(iv) 100 — 150	56·9
(v) 150 — 200	79·3
(vi) 200 — 250	106·7
(vii) 250 — 300	125·3
(viii) 300 — 500	164·2
(ix) 500 — 750	281·8
(x) Above 750	835·8
III. *Lines of Manufacture*	
(i) Textiles	76·5
(ii) Rice Mills & Other Foods	86·1
(iii) Oil crushing & Refining	149·7
(iv) Light Engineering Goods	103·5
(v) Metal Products	113·2
(vi) Electronics, Electrical Goods, etc.	158·4
(vii) Chemicals, dyes, etc.	117·1
(viii) Plastics	71·1
(ix) Others (Leather, paper products, etc.)	81·3
IV. *Age of Unit*	
(i) Upto 5 years	62·0
(ii) 6 to 10 years	96·1
(iii) 11 to 15 years	120·9
(iv) Over 16 years	127·2
V. *Status of Unit*	
(i) Public Limited Companies	932·8
(ii) Private Limited Companies	289·6
(iii) Partnership Firms	118·9
(iv) Proprietary Concerns	34·9
(v) Co-operative Societies	60·8
(vi) Others	58·8
VI. *Number of Persons Working*	
(i) Less than 5	21·0
(ii) 6 to 10	39·9
(iii) 11 to 20	77·1
(iv) 21 to 30	159·9
(v) 31 to 50	237·0
(vi) 51 to 100	362·4
(vii) 101 and above	77·0
VII. *Registration of Unit*	
(i) Registered	115·0
(ii) Not Registered	42·0
VIII. *Location of Unit*	
(i) Located in Industrial Estate	140·4
(ii) Not located in Industrial Estate	84·5
All Units	**97·4**

Source ; Derived from the aggregative data of the Surveys.

STATEMENT 7·4—AVERAGE PER UNIT INSTITUTIONAL AND NON-INSTITUTIONAL BORROWINGS

(Rs. in thousands)

	Average per unit Institutional Borrowings				Average per unit Non-Institutional Borrowings			Average per unit
	All Govt. Agencies	Commercial Banks	Co-operatives	Total	Indigenous Bankers	All Others	Total	Grand Total (Cols. 4+7)
	1	2	3	4	5	6	7	8
I. *Dealings with Banks*								
(*i*) Units which did not approach any commercial bank/co-operative ..	1·8	0·4*	0·2*	2·4 (*25·3*)	1·5	5·6	7·1 (*74·7*)	9·5 (*100·0*)
(*ii*) Units which approached and got credit facilities	19·4	76·1	2·0	97·5 (*74·1*)	8·7	25·4	34·1 (*25·9*)	131·6 (*100·0*)
(*iii*) Units which approached but were not given credit facilities	2·8	0·8*	0·6*	4·2 (*28·6*)	4·8	5·7	10·5 (*71·4*)	14·7 (*100·0*)
II. *Total Assets* (Rs. in thousands)								
(*i*) 0—25	0·2	0·4	0·1	0·7 (*50·0*)	0·3	0·4	0·7 (*50·0*)	1·4 (*100·0*)
(*ii*) 25—50	0·8	2·3	0·1	3·2 (*58·2*)	0·9	1·4	2·3 (*41·8*)	5·5 (*100·0*)
(*iii*) 50—100	1·6	5·0	0·5	7·1 (*60·2*)	1·8	2·9	4·7 (*39·8*)	11·8 (*100·0*)
(*iv*) 100—150	3·6	11·6	0·4	15·6 (*62·4*)	3·4	6·0	9·4 (*37·6*)	25·0 (*100·0*)
(*v*) 150—200	8·1	20·6	1·4	30·1 (*71·5*)	3·6	8·4	12·0 (*28·5*)	42·1 (*100·0*)
(*vi*) 200—250	9·7	29·3	1·6	40·6 (*65·5*)	8·1	13·3	21·4 (*34·5*)	62·0 (*100·0*)
(*vii*) 250—300	11·5	35·5	0·7	47·7 (*62·7*)	7·3	21·1	28·4 (*37·3*)	76·1 (*100·0*)
(*viii*) 300—500	22·9	55·7	3·0	81·6 (*69·0*)	7·6	29·0	36·6 (*31·0*)	118·2 (*100·0*)
(*ix*) 500—750	39·4	129·6	4·4	173·4 (*65·9*)	18·9	71·0	89·9 (*34·1*)	263·3 (*100·0*)
(*x*) Above 750	69·0	334·4	4·1	407·5 (*75·4*)	35·4	97·8	133·2 (*24·6*)	540·7 (*100·0*)

STATEMENT 7·4—AVERAGE PER UNIT INSTITUTIONAL AND NON-INSTITUTIONAL BORROWINGS—(*Contd.*)

(Rs. in thousands)

	1	2	3	4	5	6	7	8
III. *Lines of Manufacture*								
(*i*) Textiles	2·6	20·5	1·2	24·3 (*63·1*)	3·0	11·2	14·2 (*36·9*)	38·5 (*100·0*)
(*ii*) Rice Mills & Other Foods	5·6	19·5	1·8	26·9 (*59·4*)	7·4	11·0	18·4 (*40·6*)	45·3 (*100·0*)
(*iii*) Oil crushing & Refining	0·5	30·9	—	31·4 (*62·1*)	1·8	17·4	19·2 (*37·9*)	50·6 (*100·0*)
(*iv*) Light Engineering Goods	15·3	46·0	1·1	62·4 (*75·9*)	4·7	15·1	19·8 (*24·1*)	82·2 (*100·0*)
(*v*) Metal Products	9·0	32·7	1·2	42·9 (*66·6*)	5·4	16·1	21·5 (*33·4*)	64·4 (*100·0*)
(*vi*) Electronics, Electrical Goods, etc. ..	22·1	77·7	1·0	100·8 (*78·5*)	3·8	23·8	27·6 (*21·5*)	128·4 (*100·0*)
(*vii*) Chemicals, dyes, etc.	6·8	46·8	2·7	56·3 (*59·9*)	11·5	19·2	37·7 (*40·1*)	94·0 (*100·0*)
(*viii*) Plastics	6·7	32·1	—	38·8 (*60·2*)	2·2	23·4	25·6 (*39·8*)	64·4 (*100·0*)
(*ix*) Others (Leather, paper products, etc.)	7·1	9·6	0·4	27·1 (*66·9*)	3·0	10·4	13·4 (*33·1*)	40·5 (*100·0*)
IV. *Age of Unit*								
(*i*) Upto 5 years	10·2	23·1	1·3	34·6 (*73·6*)	3·5	8·9	12·4 (*26·4*)	47·0 (*100·0*)
(*ii*) 6 to 10 years	12·8	39·1	0·9	52·8 (*71·3*)	4·8	16·5	21·3 (*28·7*)	74·1 (*100·0*)
(*iii*) 11 to 15 years	6·9	32·1	0·9	39·9 (*65·0*)	6·4	15·1	21·5 (*35·0*)	61·4 (*100·0*)
(*iv*) Over 16 years	5·7	34·0	0·9	40·6 (*64·5*)	5·9	16·4	22·3 (*35·5*)	62·9 (*100·0*)

STATEMENT 7·4—AVERAGE PER UNIT INSTITUTIONAL AND NON-INSTITUTIONAL BORROWINGS—(*Concld.*)

	1	2	3	4	5	6	7	8
V. *Status of Unit*								
(*i*) Public Limited Companies ..	52·9	247·9	—	300·8 (*84·7*)	3·5	50·8	54·3 (*15·3*)	355·1 (*100·0*)
(*ii*) Private Limited Companies ..	37·3	130·9	3·9	172·1 (*66·9*)	22·3	62·7	85·0 (*33·1*)	257·1 (*100·0*)
(*iii*) Partnership Firms	9·2	36·1	1·2	46·5 (*68·0*)	5·6	16·3	21·9 (*32·0*)	68·4 (*100·0*)
(*iv*) Proprietary Concerns	4·8	11·3	0·4	16·5 (*71·4*)	2·2	4·4	6·6 (*28·6*)	23·1 (*100·0*)
(*v*) Co-operative Societies	11·6	5·7	10·0	27·3 (*57·7*)	—	20·0	20·0 (*42·3*)	47·3 (*100·0*)
(*vi*) Others	15·3	18·0	—	33·3 (*68·0*)	—	15·7	15·7 (*32·0*)	49·0 (*100·0*)
VI. *No. of Persons Working*								
(*i*) Less than 5	0·8	2·4	0·1	3·3 (*71·7*)	0·4	0·9	1·3 (*28·3*)	4·6 (*100·0*)
(*ii*) 6 to 10	2·2	6·4	0·9	9·5 (*58·3*)	2·2	4·6	6·8 (*41·7*)	16·3 (*100·0*)
(*iii*) 11 to 20	8·7	23·7	1·0	33·4 (*67·7*)	5·4	10·5	15·9 (*32·3*)	49·3 (*100·0*)
(*iv*) 21 to 30	18·8	48·5	1·2	68·5 (*66·1*)	8·1	27·0	35·1 (*33·9*)	103·6 (*100·0*)
(*v*) 31 yo 50	25·5	79·2	2·9	107·6 (*70·7*)	9·2	35·4	44·6 (*29·3*)	152·2 (*100·0*)
(*vi*) 51 to 100	31·4	158·1	2·1	191·6 (*68·2*)	18·5	71·0	89·5 (*31·8*)	281·1 (*100·0*)
(*vii*) 101 and above	71·7	360·9	1·6	434·2 (*77·2*)	36·5	92·0	128·5 (*22·8*)	562·7 (*100·0*)
VII. *Registration of Unit*								
(*i*) Registered	11·2	40·0	1·2	52·4 (*69·7*)	5·8	17·0	22·8 (*30·3*)	7·52 (*100·0*)
(*ii*) Not Registered	3·0	6·5	0·5	10·0 (*61·7*)	2·2	4·0	6·2 (*38·3*)	16·2 (*100·0*)
VIII. *Location of Unit*								
(*i*) Located in Industrisl Estate ..	23·6	74·7	1·7	100·0 (*73·6*)	6·7	29·1	35·8 (*26·4*)	135·8 (*100·0*)
(*ii*) Not located in Industrial Estate ..	4·9	19·1	0·8	24·8 (*64·4*)	4·4	9·3	13·7 (*35·6*)	38·5 (*100·0*)

Note : Figures in brackets are percentages to the total.
* Since these are balance sheet data, figures recorded may be for different years. Hence this inconsistency.

Source : Aggregative data of the Surveys.

CHAPTER 8

CO-ORDINATION BETWEEN COMMERCIAL AND CO-OPERATIVE BANKS I: GEOGRAPHICAL COVERAGE AT THE PRIMARY LEVEL

INTRODUCTION

8.1 In the sphere of co-operative banking, the task entrusted to the Commission is "to review the working of co-operative banks and to make recommendations with a view to ensuring a co-ordinated development of commercial and co-operative banks, having regard, in particular", to the extension of the "geographical and functional coverage of the commercial banking system". This task would have been quite difficult but for the fact that over the past thirty years or so the problems of co-operative banking and rural credit have been examined by a number of expert committees. The problems of credit to agriculture were examined in 1944-45 by the Agricultural Finance Sub-Committee headed by D. R. Gadgil which emphasised the need for a planned approach to the provision of credit for raising crops. The Co-operative Planning Committee of 1945 emphasised the role of the Co-operative Movement in this connection. In 1954 the Report of the Committee of Direction of the All-India Rural Credit Survey recommended the integrated scheme of rural credit. To mention some of the recent works in this field, the All-India Rural Credit Review Committee,[1] set up by the Reserve Bank of India in 1966, made a very comprehensive review of their working. The Expert Report on Intensive Agricultural District Programme (1960-68) published by the Ministry of Food and Agriculture, examined the performance of co-operative credit institutions in the IADP districts. The Fertiliser Credit Committee (1968) of the Fertiliser Association of India, reviewed the availability of credit for fertiliser and other inputs from the co-operative credit system. Finally, the Working Group on Industrial Financing through Co-operative Banks (1968) set up by the Reserve Bank of India examined the question of availability of resources from co-operative banks to industrial co-operatives.

8.2 The Commission's task is, however, somewhat different in as much as its recommendations have to be made so as to ensure the co-ordinated

[1] *Report of the All-India Rural Credit Review Committee*, Reserve Bank of India, 1969.

development of commercial and co-operative banks. This required ascertaining the viewpoints of the various organisations involved and collecting certain data not already available in the reports mentioned. Accordingly, the Commission issued questionnaires to the State Governments, the State co-operative banks and central co-operative banks and urban and industrial co-operative banks. Separate questionnaires were also issued to agricultural universities and co-operative training colleges and institutions. The central co-operative banks were selected so as to respresent the different regions and also to represent those with a relatively high level of performance as well as those with a relatively low level of performance. Similarly the urban and industrial co-operative banks were so selected as to represent a cross section of different types of banks.

8.3 In addition, the Commission requested the Reserve Bank of India to conduct surveys in 12 selected districts, the State Bank of India in 2 districts, the Vaikunth Mehta National Institute of Co-operative Management in two districts, the Professor in Agricultural Economics of the Andhra University and the Principal, Co-operative Training College, Vallabh Vidyanagar, Gujarat, in two districts to ascertain the performance and problems faced by co-operative banks and primary credit societies in deposit mobilisation and provision of credit facilities and other banking services.

8.4 The Vaikunth Mehta National Institute of Co-operative Management also prepared studies on certain other aspects of co-operative banking such as Executive Development in Co-operative Banks and Overdues. The National Institute of Bank Management analysed for us the available material on organisational aspects of co-operative banks and gave its suggestions.

8.5 The Commission has also had the benefit of discussions on a wide range of questions, with the representatives of State Governments, commercial banks, co-operative banks, economists, officials of the Reserve Bank of India and others.

Approach

8.6 Since the predominant part of the co-operative banking system caters to the needs of the agricultural sector of the economy, the problems of co-ordination between the co-operative and the commercial banking systems have to be viewed principally in the context of meeting the credit needs of this sector. The existence of a very large number of small production units in agriculture working under a wide variety of conditions creates certain special problems from the point of view of adequate supply of credit to agriculture. It is necessary in the first place that the outlets through which credit is supplied to the units should be widely spread over the country in such a way that they are within convenient distance of the production units which they serve. The co-operative credit system attempts to do this through the medium of the

primary credit societies. The commercial banking system which has entered only recently into this field has no such widespread organisation. Thus, as against 1.63 lakhs of primary agricultural credit societies in existence at the end of June 1970, the offices of commercial banks in 91,000 villages with a population of between 1,000 to 4,999 were only 596 by the end of 1969 and in 3,420 villages with a population between 5,000 to 9,999 were 1,005.[1] Another important feature of the co-operative credit system is the intimate knowledge of the local conditions and problems which those in charge of these institutions have. The commercial banking system does not possess such knowledge at present and will require some time before it can build it up to an adequate level. The main problem with the co-operative credit institutions is their organisational and financial weakness which means that although the institutions are better spread from the geographical point of view and have better knowledge of local conditions and problems than the commercial banks to supply credit to the agricultural sector, in actual practice, their ability to do so is considerably limited. On the other hand, while the majority of the commercial banks are strong in both these respects not only do they have to go a long way in order to provide the necessary spread in rural areas and to build up the knowledge about problems of financing agriculture in all its diversity but, more important, they have to do all this in addition to meeting the calls on their resources from production units in the various types of industry, trade and services. The problem of co-ordination between the commercial banks and co-operative banks has to be examined against this background. It is a problem of making the most of the advantages of the two systems. At the same time it is necessary to strengthen the co-operative credit system so that the inherent advantages it possesses are made full use of.

Credit Requirements of the Agricultural Sector

8.7 It has been estimated by the All-India Rural Credit Review Committee[2] that the short-term agricultural credit needs in the last year of the Fourth Five Year Plan, *i.e.*, 1973-74 were likely to be of the order of Rs. 2,000 crores while the medium-term credit needs for the Plan period were put at Rs. 500 crores. For the last year of the Fourth Plan, a target of Rs. 750 crores has been fixed for the co-operatives in respect of short and medium-term agricultural advances. Comparing these figures against the outstanding short and medium-term loans by the co-operatives of Rs. 711 crores at the end of June 1970 and the outstandings of Rs. 235 crores as on March 31, 1971 in respect of direct finance of agriculture by commercial banks gives some idea of the magnitude of the task that lies ahead. But in view of the problems mentioned earlier, it is doubtful if the commercial banks will be able to handle the whole of it. The position is not much different in the case of long-term credit. It is also important to note that the Review Committee's estimates

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[1] Population according to 1961 Census.
[2] *Ibid*, pp 87 and 96.

do not include the credit needs for other rural economic activities either related or unrelated to farming.

8.8 Credit gaps are very large in areas where neither co-operative nor commercial banks have virtually any organisation at the grass roots level. Even in areas where the organisation exists, it is not at present capable of satisfying all the needs of those who are eligible for credit and need it. In particular, there is a significant gap in institutional arrangements in respect of small, marginal and sub-marginal farmers and other rural producers of this category which calls for a different approach. Besides, it is not enough to concentrate merely on providing adequate credit ; emphasis has also to be given to the supervision of the application of the credit and guidance to the borrower in his operations.

8.9 Viewed in this light, the objectives of co-ordination between the co-operative and commercial banks should be (*a*) creation of a widespread and progressive institutional base at the primary level in direct touch with rural producers which can provide adequate and timely credit at reasonable rates and also attract local savings into the system ; (*b*) consolidation, strengthening and expansion of the framework of co-operative banking at higher levels for mobilisation of resources; and (*c*) programmes of training and equipping the personnel in the co-operative banks to carry out their tasks in an efficient manner.

8.10 In the present chapter, we shall discuss the position of geographical coverage by commercial and co-operative banks at the primary level and present the possible lines of approach for ensuring adequate coverage at this level.

Performance of Primary Agricultural Credit Societies

8.11 The performance of the 1.63 lakh primary agricultural credit societies which operated at the village level as at the end of June 1970 as regards coverage of villages as well as of rural population, provision of loans, etc., may be seen from Table 8.1. The loans outstanding from members as at the end of June 1970 amounted to Rs. 711 crores. Though no precise estimates are available, the credit provided by them is estimated to be around 25 per cent of the total credit needs for agriculture as compared with 3 per cent in 1951-52. Progress has been more marked in areas where agreed policies of reorganisation of primary credit societies have been carried out systematically.

8.12 The active primary credit societies covered as at the end of June 1970 over 85 per cent of the villages and their membership of over 29 million accounted for 34 per cent of rural population. There has been considerable progress particularly over the past decade in the coverage of rural population by societies, notably in States such as the Punjab, Tamil Nadu and

TABLE 8·1—POSITION OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

(Rs. in lakhs)

Name of the State	No. of societies		Coverage of rural household (*in percentage*)		Loans outstanding		Loans overdue		*Percentage of overdues*	
	1968-69	1969-70	1968-69	1969-70	1968-69	1969-70	1968-69	1969-70	*To loans outstanding 1968-69*	*To demand 1969-70*
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	15181	14916	*29·13*	*26·9*	3193	3521	1180	1506	*37*	*45*
2. Assam	3764	3245	*14·48*	*18·3*	533	552	398	452	*74*	*83*
3. Bihar	16500	16500	*25·39*	*27·4*	1219	1931	561	965	*46*	*44*
4. Gujarat	8711	8531	*34·88*	*35·8*	7274	8687	1781	1843	*24*	*23*
5. Haryana	6147	6178	*34·83*	*38·7*	1448	1724	351	575	*24*	*32*
6. Himachal Pradesh	2556	2557	*64·20*	*67·0*	537	653	123	123	*23*	*31*
7. Jammu & Kashmir	1086	1104	*41·24*	*36·0*	262	309	82	186	*31*	*57*
8. Kerala	2172	2160	*44·70*	*44·8*	2279	2979	585	714	*26*	*28*
9. Madhya Pradesh	10076	9986	*30·07*	*31·1*	6290	7325	2319	2896	*37*	*45*
10. Maharashtra	20124	20091	*43·93*	*44·4*	12759	14214	4979	5639	*39*	*38*
11. Mysore	8931	8722	*39·07*	*41·8*	4101	4383	1683	2054	*41*	*42*
12. Nagaland*	28	28	*1·28*	*1·2*	1	1	—	—	—	—
13. Orissa	3843	3833	*35·91*	*34·3*	1975	1975	925	1238	*47*	—
14. Punjab	10401	10358	*66·15*	*66·5*	4250	5060	1123	1973	*26*	*31*
15. Rajasthan	9691	8042	*28·82*	*30·1*	1788	2118	556	765	*31*	*42*
16. Tamil Nadu	7255	6609	*58·74*	*58·4*	5220	5684	1497	2083	*29*	*35*
17. Uttar Pradesh	27102	26573	*35·64*	*35·8*	6989	8052	2293	2771	*33*	*35*
18. West Bengal	12769	11830	*15·65*	*16·1*	1512	1701	855	950	*57*	*60*
19. Union Territories	1423	1437	*34·89*	*34·8*	245	275	113	92	*46*	*56*†
Total	**167760**	**162700**	**34·65**	**35·4**	**61875**	**71144**	**21404**	**26825**	*35*	*39*

* Data relate to 1966-67.

† Demand figures in respect of three Union Territories are not available.

Source : Statistical Statements Relating to the Co-operative Movement in India.

Himachal Pradesh, where it exceeds 50 per cent. In most of the remaining States, it is much less than 30 per cent. However, 'effective' coverage expressed as a proportion of borrowing rural households to total rural households is as high as 50 per cent in the Punjab, followed by Himachal Pradesh ; it is less than 20 per cent in all but four States, in some of them the proportion being less than 10 per cent; these include Assam, Bihar, Orissa, Uttar Pradesh and West Bengal. Generally low coverage is associated in most areas with a weak financial position and organisation of the societies. It is understood that almost 85 per cent of the societies (1.29 lakhs) are classified under 'C', 'D' or 'E' under audit while 19,000 societies are considered defunct or dormant.

8.13 Table 8.2 brings out the disparity between the different States as regards the financial position of the primary societies. It is only in a few States that the position reveals a generally satisfactory performance. In 10 States, the average share capital per society is Rs. 10,000 or less while in 9 States the average loan business per society is less than Rs. 30,000. In most cases the loan business is not large enough to bring in adequate income to maintain the minimum establishment such as a regular office and paid Secretary. Appointment of a full-time paid Secretary which may be regarded as one of the indices of potential viability, is reported by about 51,000 societies.

TABLE 8·2—STATEWISE POSITION OF SOCIETIES — 1969-70

Name of the State	Average membership per society	*Percentage of borrowing membership to the total membership*	Average share capital per society	Average deposit per society	Average loan outstanding per society	Average overdues per society	*Percentage of overdues to loans outstanding per society*
			(Amounts in thousands of rupees)				
1	2	3	4	5	6	7	8
1. Andhra Pradesh ..	125	*47·5*	6	2	24	10	*42*
2. Assam	117	*13·5*	3	2	17	14	*82*
3. Bihar	164	*33·4*	3	2	12	6	*50*
4. Gujarat	153	*52·7*	27	5	102	22	*22*
5. Haryana	96	*55·0*	5	1	28	9	*32*
6. Himachal Pradesh ..	166	*36·7*	8	14	26	5	*19*
7. Jammu & Kashmir..	254	*37·5*	4	1	28	17	*61*
8. Kerala	711	*38·7*	37	41	138	33	*24*
9. Madhya Pradesh ..	203	*48·4*	14	4	73	29	*40*
10. Maharashtra ..	154	*44·9*	24	2	71	28	*39*
11. Mysore	203	*37·6*	14	4	50	24	*48*
12. Nagaland* ..	36	—	2	—	5	2	*40*
13. Orissa	340	*25·5*	11	4	52	32	*62*
14. Punjab	134	*84·1*	10	14	49	19	*39*
15. Rajasthan	153	*43·7*	7	2	26	10	*38*
16. Tamil Nadu ..	493	*19·5*	25	6	86	32	*37*
17. Uttar Pradesh ..	201	*35·5*	8	2	30	10	*33*
18. West Bengal ..	86	*35·8*	3	1	14	8	*57*
19. Union Territories ..	171	*21·5*	7	2	19	6	*32*
Total	**183**	*39·4*	**12**	**4**	**44**	**17**	*39*

* Data relate to 1966-67.

Source : Statistical Statements Relating to the Co-operative Movement in India.

8.14. While deposits reflect the ability of the primary society to attract local savings, its overdues reflect its difficulties in making sound loans. Overdues pose a serious problem in many States. For the country as a whole, they amounted to Rs. 268 crores forming 39 per cent of the demand, as at the end of June 1970. In 11 States, they range from 30 per cent to 47 per cent and in three they amount to 50 per cent or more of demand. The average position of overdues per society indicates the extent to which they constitute a serious road block to the flow of credit since many central co-operative banks do not provide fresh loans to societies with overdues exceeding a given proportion. Moreover, the high overdues of the societies seriously affect the ability of central banks to raise resources from higher financing agencies.

Performance in the Sphere of Mobilising Savings

8.15 Available evidence shows that barring the agricultural banks, and the large-sized credit societies set up in pursuance of the recommendations of the All-India Rural Credit Survey Committee (1954), most societies have not been able to raise much by way of voluntary deposits from the rural people. The average deposits per member amounted to Rs. 21 for the country as a whole as on June 30, 1970, though in some States the performance is much better than this. One basic handicap is that most societies deal only with members who constitute, in many cases, a minority of the total rural population in the villages covered by them. Increased prosperity in rural areas witnessed in recent years has not resulted in growth of deposits with societies to any significant extent. The surveys conducted for us by the Reserve Bank of India and other bodies in 16 districts revealed that the performance of the primary structure is poor despite the existence of deposit potential. They show that most of the agriculturists preferred to invest their savings, in the absence of a branch of a bank nearby, either with the Post Office or with businessmen and traders with whom they had dealings ; they did not like to keep them with the primary credit societies.

8.16 The studies also revealed the low level of development of banking in rural areas. Even in developed districts like South Kanara and Tirunelveli, hardly 20 per cent of the residents ever visited a bank, and those that had used the cheque system, were negligible.

Primary Society the Weakest Link in the Structure

8.17 Perhaps few questions affecting rural areas have received as much attention during the past few decades as the one of building the primary agricultural credit societies into strong institutions. Though over this period the societies grew in number, the primary credit society continued to remain the weakest link in the entire co-operative credit structure. In their replies to the Commission's questionnaires, the State Governments, apex as well as central co-operative banks have also expressed a similar view.

8.18 Recognising the weakness of the primary credit societies, the expert Committees which went into the question from time to time emphasised, among other things, (*a*) setting up of limited liability societies for a group of villages by amalgamation of existing societies so as to make them economically viable, (*b*) enabling societies to undertake such functions as would provide comprehensive services to cultivators, and (*c*) developing the potentialities of primary units for tapping rural savings. The Rural Banking Enquiry Committee (1950) in particular, recognised that the weakness of the co-operative structure lay mainly with institutions which were in direct touch with the rural people and stressed that more efforts should be devoted to strengthening and developing of institutions at that level—particularly from the point of view of mobilising rural savings. This view was endorsed by the All-India Rural Credit Survey when it recommended, as part of its Integrated Credit Scheme, that the primary credit societies might accept fixed deposits and in selected instances operate savings accounts also on behalf of the bank to which they were affiliated.

8.19. The most recent review of the subject was done by the All-India Rural Credit Review Committee[1] which summed up its observations on the performance of the primary credit societies as follows :

(*a*) The proportion of co-operative credit to the total borrowings of the cultivators appears to have continued to be small in absolute standards in most parts of the country ;

(*b*) The orientation of co-operative credit to production needs has been, by and large, inadequate ;

(*c*) Though some of the restrictive features of the co-operative credit have been relaxed, tenants and small cultivators remained generally handicapped in obtaining their credit needs ;

(*d*) A large number of primary societies are not potentially viable and must be regarded as inadequate and unsatisfactory agencies for dispensing production-oriented credit ;

(*e*) Co-operative credit has frequently fallen short of standards of timeliness, adequacy and dependability and overdues have been heavy and increasing from year to year in many States including those which are co-operatively advanced ; and finally,

(*f*) The co-operative credit institutions have not successfully demonstrated that they are in a position to deal expeditiously with the problems arising from crop failures and ensuring adequate and timely credit for the borrowing farmers.

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[1] *Ibid*, pp. 201, 202.

8.20 Having identified the deficiencies, the Committee emphasised the necessity for having strong and viable units at the primary level from the point of view of sound working of the entire co-operative credit structure and suggested that the programme of reorganization should be completed before the end of 1970-71. The Committee also called for a flexible approach to the determination of the area of operation of the society and the standards of viability. In particular, it emphasized that the co-operative department should enforce compulsory amalgamation of weak and small societies wherever other measures failed and towards this end, the State Co-operative Societies Acts should be amended ; that, increasingly, the unlimited liability societies should be converted into limited liability societies to facilitate reorganization into viable units ; and further that the viable societies should be given Government share capital contribution upto Rs. 10,000 per society for credit and another Rs. 10,000 for non-credit business. They should also get managerial subsidy at Rs. 1,500 per year per society for three years.

Certain Limitations on Primary Societies

8.21 While the primary credit societies, by and large, have not been designed or equipped to mobilise rural savings by attracting deposits, there were other serious limitations which came in the way of their providing credit facilities effectively in rural areas. As mentioned earlier, the borrowing membership of the societies was around 39 per cent of the total membership of the system as a whole as on June 30, 1970 which meant that it was no more than 15 per cent of the rural families in the country. It is possible that the proportion of borrowing members is low on account of some members not being in need of credit facilities. There is also evidence to the effect that there is multiple membership from the same families. Even so, the available material reveals that in most cases borrowing membership is low on account, especially, of one or more of the following reasons :

(*i*) defaults of members in loan repayment and inability of societies to raise resources, (*ii*) inability of members to provide the prescribed security, (*iii*) lack of up-to-date land records or inalienable rights to land or inability to produce sureties, (*iv*) ineligibility of certain purposes for loans, (*v*) inadequacy of credit limits prescribed, and (*vi*) onerous conditions prescribed such as share capital contribution at 10 to 20 per cent of loans outstanding and compulsory thrift deposits.

8.22 Co-operative finance distributed through the primary societies is mainly confined to crop finance and medium-term loans for identifiable purposes such as digging of wells, installation of pump sets, etc. These amount to about 94 per cent of total loans made to members by societies. Most of the societies do not provide credit for all the productive activities undertaken by the agriculturists nor do they provide to the full extent of their credit needs. In most cases, non-agricultural credit needs even for productive purposes are not met at all.

8.23 In improving the institutional arrangement at the primary level, it is as important to make the structure broad-based as to widen the range of eligible purposes for which credit and other facilities are available. In particular where the effective coverage of the primary society extends over only small proportion of the rural households, its usefulness as an instrument of bridging credit gaps in the areas is limited. In such areas other approaches might be necessary, for achieving the desired results.

8.24 An important feature of the present arrangement is that while the bye-laws of the primary society insist on an individual becoming a member as a pre-condition for making its facilities available to him howsoever credit-worthy he may be otherwise, the society does not at the same time assume a corresponding obligation to satisfy his entire credit needs. Even the limited credit facilities that the society gives to a member become unavailable if the proportion of overdues reaches a high level on account of even a few defaulters and the society itself is denied credit facilities by the central bank to which it is affiliated. Similarly, while the central bank is its only source of funds, the bank has no corresponding obligation to satisfy its entire credit needs. The societies based on unlimited liability numbering about 42,000 would be at a greater disadvantage than the limited liability societies in the matter of increasing membership and raising resources.

8.25 The information furnished to us by the States and co-operative banks goes to show that the progress in the matter of reorganization of societies into viable units has been slow and halting in many States. This has been attributed, among other reasons to : (*i*) unwillingness of some societies to amalgamate, (*ii*) administrative delays, (*iii*) absence of legal provisions to enforce compulsory amalgamation, and (*iv*) reluctance on the part of the States to enforce compulsory amalgamation. It, therefore, appears unlikely that reorganization of more than a lakh of agricultural credit societies into viable units on the lines recommended by the All-India Rural Credit Review Committee[1] could be completed in the foreseeable future. This means that the ability of a large majority of them to function as effective instruments of tapping rural savings and providing comprehensive credit and banking facilities to all sections of rural people would remain very limited. It is, therefore, necessary to examine what other agencies are available for this purpose.

Coverage of Rural Areas by Co-operative Banks

8.26 In the co-operative sector, it is mainly the central co-operative banks that are, under the present policies, expected to provide banking facilities in the rural areas. The performance of central banks in respect of functional coverage is examined in another chapter. In this section, their performance in extension of branches in rural areas is examined.

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1 *Ibid*, pp. 455-458.

8.27 Table 8.3 shows that there has been considerable increase in the number of their offices during the period 1961-70. As at the end of June 1970, the 340 central co-operative banks in 17 major States had offices including head offices numbering 3,438, of which over 50 per cent are located in centres with a population of 10,000 and less each. However, it is significant that only three States *viz*., Gujarat, Maharashtra and Madhya Pradesh account for over 50 per cent of their total number of offices and 65 per cent of offices at centres with population of less than 10,000 each. In these centres, central co-operative banks had 1,773 offices as against 1,601 of commercial banks (as at the end of 1969). Such wide net-work of branches of these banks indicates that with organizational competence and good leadership, co-operative banks find it easier than the commercial banks to spread out into rural areas.

Policies Relating to Branch Extension

Central Co-operative Banks

8.28 Though certain provisions of the Banking Regulation Act, 1949, have been extended to the co-operative banks since 1966, they are not required to seek prior permission of the Reserve Bank of India for opening new branches in their respective areas of operation. Further in pursuance of certain assurances given by the Government of India to co-operative banks at the time when the Banking Companies Act, 1949, was extended to them, preferential treatment was being shown to co-operative banks *vis-a-vis* commercial banks, in the matter of opening of branches in rural areas and small towns, "to the point of discouraging commercial banks from opening branches in places already served or likely to be served by co-operative banks".[1] Central co-operative banks are also eligible for subsidies from State Governments on a tapering scale.

8.29 The Reserve Bank of India (Agricultural Credit Department) urged the central co-operative banks from time to time to take advantage of those concessions and undertake vigorous branch expansion. As a result, as against 854 new offices programmed to be opened by central co-operative banks during the period August 1967 to September 1969, they opened as many as 627 offices, of which 312 were as per the programmes and 315 outside the programmes. The progress has been impressive in Maharashtra Gujarat, Mysore, Madhya Pradesh, Tamil Nadu and Jammu & Kashmir, while in others it has lagged.

8.30 Following a review of the policy, the Reserve Bank discontinued the preferential treatment extended to co-operative banks with effect from April 1969. Even so, it alerted the State Governments and co-operative banks to the new situation and emphasised the importance of co-operative banks

[1] 'Banking Laws (Application to Co-operative Societies) Act, 1965, *Reserve Bank of India Bulletin*, October 1965, p. 1577.

TABLE 8·3—OFFICES OF CO-OPERATIVE BANKS AND AVERAGE POPULATION COVERED PER OFFICE

Name of the State	No. of central co-operative banks		No. of offices including head offices		Average population per office of central co-operative banks (in thousands)		No. of offices of State banks and No. of primary banks (1970)		Average population per office of all co-operative banks (in thousands)		No. of offices located in centres with population (end of 1969): Less than 5,000		No. of offices located in centres with population (end of 1969): Between 5,000 and 10,000	
	1961	1970	1961	1970	1961	1970	State	Primary	1961	1970	Co-operative banks	Commercial banks	Co-operative banks	Commercial banks
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Andhra Pradesh ..	25	25	63	136	575	318	4	55	370	222	9	26	22	85
2. Assam ..	9	7	18	29	666	535	18	3	324	310	4	9	12	14
3. Bihar ..	35	28	50	113	936	510	4	1	866	488	1	11	10	29
4. Gujarat ..	24	18	198	365	105	72	1	130	83	53	94	75	123	153
5. Haryana ..	—	9	—	64	—	156	1	3	75	147	8	19	9	29
6. Himachal Pradesh	—	2	—	20	—	180	30	—	—	72	35	19	6	13
7. Jammu & Kashmir	4	3	18	30	199	135	4	—	179	120	19	10	4	3
8. Kerala ..	7	9	10	72	1704	295	2	28	774	208	3	49	3	48
9. Madhya Pradesh ..	48	43	191	565	171	72	6	11	156	70	299	30	96	57
10. Maharashtra ..	36	25	374	857	107	58	25	267	83	43	321	33	237	123
11. Mysore ..	23	19	138	299	172	98	4	160	118	63	59	74	102	117
12. Orissa ..	17	17	26	83	680	260	1	9	535	232	16	12	18	13
13. Punjab ..	34	17	122	153	92	96	1	3	90	93	42	53	31	49
14. Rajasthan	29	25	75	127	271	206	3	9	261	188	22	52	28	78
15. Tamil Nadu ..	15	16	22	195	1539	203	14	122	398	120	8	44	28	84
16. Uttar Pradesh ..	55	56	97	254	766	357	12	24	669	313	47	69	40	92
17. West Bengal ..	29	21	43	76	820	587	3	151	568	195	8	11	9	18
Total ..	**390**	**340**	**1445**	**3438**	**295**	**157**	**133**	**976**	**226**	**118**	**995**	**596**	**778**	**1005**

Source : (i) Statistical Statements Relating to the Co-operative Movement in India.
(ii) Columns 12 to 15 from Statistical Tables Relating to Banks in India.

occupying their legitimate place in small towns and rural areas by speeding up their branch expansion programmes. In particular, it called upon the State Governments to help co-operative banks in all possible ways, including undertaking surveys of unbanked and under-banked centres, assessing their deposit and loan potential and ascertaining the availability of infra-structure, making arrangements for recruitment and training of staff, helping banks in acquiring suitable premises and providing subsidies to promote branch expansion programmes vigorously.

8.31 The All-India Rural Credit Review Committee which examined the question at length underlined the need for the Reserve Bank of India helping co-operative banks in drawing up a master plan for branch expansion, in order that they would be in a position to mobilise local savings and provide banking services in rural areas. The Committee recommended that each central co-operative bank should review from time to time the performance of branches already opened from the point of view of deposits, loan business and profitability and also formulate a 5-year programme for opening new branches.[1]

8.32 One of the main difficulties in extending banking facilities to the rural areas by increasing the branch net-work of the central co-operative banks is that a large number are not strong enough. Thus out of 340 banks, 121 had not reached as on June 30, 1970 the stage of viability prescribed by the Reserve Bank of India. As many as 147 of them were classified under 'C' or 'D' in audit which reflects, among other things, poor management, high level of overdues, etc. What is more important, about 100 banks are understood to be requiring rehabilitation—some of them have already been included in the programmes drawn up for the purpose—on account of their high overdues, leading to a general deterioration in their financial position.

State Co-operative Banks

8.33 The policy in respect of branch extension by the State co-operative banks and primary co-operative banks has been, however, different. In terms of the Banking Regulation Act, they are required to seek the prior approval of the Reserve Bank of India for opening offices. In this regard, the Reserve Bank's policy generally has been not to permit State co-operative banks to open offices in the districts where there are central co-operative banks and to make them close down their offices in the districts, if opened earlier, wherever reorganisation programmes have been drawn up for the central banks. However, the apex co-operative banks generally have been allowed to open offices at the State headquarters where, in each case, its head office is located.

8.34 Nevertheless, a State co-operative bank is allowed to open offices in the districts under certain circumstances. These are when : (*a*) the cen-

[1] *Ibid*, p. 677.

tral bank is 'weak', (*b*) there is a large deposit potential and the central bank is not able to tap the same, (*c*) the central bank has no objection to the apex bank opening an office in the district, and (*d*) in the case of Union Territories, where the apex bank is the sole financing agency. Instances in which apex banks have taken the initiative to open offices in the districts where one or more of the above conditions are satisfied are few and far between.

Coverage of Rural Areas by Commercial Banks

8.35 As has been pointed out in Chapter 5 the branch net-work of commercial banks is uneven as between the different States and also as between urban and rural areas. In particular as against 91,000 villages[1] in the country with a population ranging from 1,000 to 4,999 each and 3,420 villages with a population ranging from 5,000 to 9,999 the commercial bank offices opened in these centres upto 1969 numbered 596 and 1,005 respectively (Table 8.4). The villages with a population of less than 999 each numbered around 4.60 lakhs.[1]

TABLE 8·4—COVERAGE OF POPULATION — COMMERCIAL BANKS (STATE-WISE)*

Name of the State	End of 1961		End May 1971		End of 1969	
	No. of offices	Average population per office (in thousands)	No. of offices	Average population per office (in thousands)	No. of offices of commercial banks located in centres with population of	
					Less than 5,000	Between 5,000 and 10,000
1	2	3	4	5	6	7
1. Andhra Pradesh ..	335	108	861	50	26	85
2. Assam	48	250	136	114	9	14
3. Bihar	177	264	441	131	11	29
4. Gujarat	335	62	1072	25	75	153
5. Haryana	—	—	249	40	19	29
6. Himachal Pradesh ..	10	135	86	42	19	13
7. Jammu & Kashmir ..	28	128	97	42	10	3
8. Kerala	528	32	836	25	49	48
9. Madhya Pradesh ..	190	172	560	73	30	57
10. Maharashtra	602	66	1461	34	33	123
11. Mysore	473	50	1114	26	74	117
12. Orissa	53	333	171	126	12	13
13. Punjab	334	34	552	27	53	49
14. Rajasthan	178	114	525	50	52	78
15. Tamil Nadu	798	43	1354	29	44	84
16. Uttar Pradesh	484	153	1117	81	69	92
17. West Bengal	266	132	681	65	11	18
Total	**4839**	**88**	**11313**	**48**	**596**	**1005**

* Excluding the Union Territories.
Source : Reserve Bank of India.

[1] According to 1961 Census.

8.36 The district-wise position of the coverage of population by commercial bank offices as at the end of September 1970 shows that out of 337 districts covered by their offices, the average population per office was less than 50,000 in 100 districts ; it exceeded 50,000 but was less than 1 lakh in 106 districts ; it was more than 1 lakh but less than 2 lakhs in 85 districts and it exceeded 2 lakhs in 33 districts. In seven districts there was no commercial bank office. It should also be noted in this connection that there is considerable concentration of offices in a few centres in each district. Available data[1] show that such concentration of commercial bank offices occurs at important commercial centres in the districts with the result that banking facilities from such offices are by and large limited to those villages which lie within a limited radius from them.

8.37 Since their nationalisation, the major commercial banks have been expanding their network of branches at a rapid rate. However, the gap between the number of commercial banks' branches in rural areas and the number required is so wide that it is unlikely to be filled up in the foreseeable future, through branch expansion. Moreover in the matter of branch expansion in the rural areas commercial banks face considerable problems in regard to personnel. It will also take some time for them to develop appropriate systems of branch control and decentralisation as also work out procedures, etc., relevant for rural areas.

Views of State Governments and Co-operative Banks

8.38 The State Governments and co-operative banks were asked to indicate whether they would prefer branch expansion or setting up of rural banks either independently or as subsidiaries of commercial banks or co-operative banks or jointly of both, to provide banking and credit facilities in rural areas. While conceding that branches of co-operative banks might be extended to cover potential centres, a number of them stressed the need for strengthening the primary institutions financially and making them organisationally competent to undertake various functions including mobilisation of deposits. In this context, a large number of them expressed themselves in favour of setting up of some kind of rural banks. One definite suggestion for example was that the primary tier should be dispensed with and there should be strong rural banks for every group of say, 10 villages which would mobilise deposits and provide adequate production-oriented credit. Subsidiary banks jointly sponsored by commercial banks and co-operative banks are favoured by co-operative banks on various grounds, *viz.*, (*a*) they would help combine the knowledge of agricultural financing and rural orientation available with the co-operative banks with the resources, managerial competence and knowledge of improved methods of working available with commercial banks ; (*b*) they would help eliminate unhealthy competition between commercial and co-operative banks in the best interests of rural areas and for increasing

[1] The studies undertaken for the Commission by the Reserve Bank and other bodies in certain districts, Lead Bank Surveys, Supplement to the Reserve Bank of India Bulletin, November 1970.

agricultural production ; (*c*) agro-industrial development in the areas can be encouraged ; and (*d*) the dependence on the Reserve Bank can be reduced gradually as these subsidiary banks mobilise larger resources from rural areas. It has been emphasised that such banks should undertake all types of credit and banking business.

Oral Evidence

8.39 In their oral evidence, representatives of certain co-operative organisations including the National Co-operative Union of India and a few others suggested the setting up of rural banks at the primary level to deal directly with rural people in order to make it less difficult and less costly for commercial banks to extend banking to rural areas. In particular, there was a suggestion that the margin maintained by the co-operative structure in making loans to the ultimate borrowers could be reduced by enlarging the scope of operations of co-operative banks and by converting primary societies into full-fledged rural banks. Long-term loans also could be channelled through such rural banks so that farmers need not run around to many agencies to satisfy their credit needs.

Findings of District Studies

8.40 The district studies undertaken for us by the various bodies like the Reserve Bank, Universities and the Vaikunth Mehta National Institute of Co-operative Management have also found that there is need for having strong primary institutions like rural banks in the place of existing primary credit societies to undertake comprehensive credit and banking services and collection of deposits. The report on Sangli District,[1] for example, underlined the need for the primary societies appointing their own agricultural extension officers to improve supervision and utilisation of credit and in this connection suggested that some societies might be converted into rural banks on an experimental basis. The report[2] on Guntur district observed thus :

> "The question relating to the relative role of co-operatives and commercial banks in relation to short-term loans is a difficult one. Inspite of all their inadequacies, the co-operatives are the only institutional agencies which cater to the largest number of rural households. The commercial banks will find themselves in a difficult position to cater to the needy small cultivators. Judging by the present trends, supplanting the activities of the co-operatives by commercial banks in the near future is inconceivable. But co-operatives as they are currently situated are ill-equipped as agencies of deposit mobilisation. Further, there is widespread resentment against groupism and discrimination in issue of loans by the board of management of co-operatives. The role

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[1] The study was undertaken for the Commission by the Vaikunth Mehta National Institute of Co-operative Management.

[2] The study was undertaken by the Department of Applied Economics and Co-operation, Andhra University, Waltair.

that is to be assigned to the co-operatives in relation to credit expansion and deposit mobilisation will essentially depend upon the quickness with which they could transform themselves into viable rural banks, manned by trained cadre. The commercial banks could help the transformation of co-operatives into rural banks. If co-operative leadership at grass roots does not display the imagination and foresight in promoting the formation of viable co-operative banks, the nationalised commercial banks will be under strong pressure to promote direct financing of agriculture on a much larger scale even if it means further weakening of the co-operative credit structure."

SCHEME OF COMMERCIAL BANKS FINANCING PRIMARY AGRICULTURAL CREDIT SOCIETIES

8.41 Recognising that the primary credit societies working satisfactorily in areas served by weak central co-operative banks were not in a position to get adequate credit facilities, the Reserve Bank launched a scheme[1] under which commercial banks could take up financing of certain number of societies in selected districts. During 1970-71, the scheme was introduced in 49 districts in 5 States.[2] The scheme was intended to provide a means by which commercial banks' resources would become available to the co-operative system. We recognise, it is too early to make an assessment of the working of the scheme. However, it would be useful to note some of the problems thrown up by it during the experimental stage. A study conducted for us in Andhra Pradesh and Mysore has brought out the following features :

(*i*) The commercial banks have to undertake rather heavy responsibilities when they finance primary credit societies, such as preparation of credit limit statements by the societies, getting resolutions passed by them, execution of documents, ensuring proper use of funds and their recovery, taking legal action in the case of defaults, maintenance of books of accounts, etc. Where paid secretaries are appointed by the societies, the bank's task is somewhat reduced.

(*ii*) While in several cases the membership of the societies taken up by the banks was low, their efforts to increase membership received modest or no support from the managing committees which were, it would appear, reluctant to release their hold on the societies. For the same reason, they also seemed to be reluctant to appoint paid secretaries.

(*iii*) Though generally larger volume of finance flowed through the societies than in the past, particularly for financing large farmers, there was no significant increase in the finance reaching the small borrowers.

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1 The scheme was suggested by the National Credit Council Study Group on Area/Project Approach in Implementing Schemes for Extending Commercial Bank Credit to Agriculture (1969) and was recommended by a Working Group of the Nationalised Banks.

2 Andhra Pradesh, Haryana, Madhya Pradesh, Mysore and Uttar Pradesh.

(*iv*) As the membership of the societies remained low, the benefit of commercial bank finance reached a relatively small proportion of local producers. Those who were engaged in other than agricultural occupations had, as in the past, no way of satisfying their credit needs. As the society was not in a position to satisfy all the credit needs, the borrowers were not willing to create charge on their assets ; instead they preferred to go without credit from the society.

(*v*) The high ratio (10 to 20 per cent of the loan) at which share capital was collected from borrowers discouraged some farmers from becoming members.

(*vi*) Even though the credit limits were fixed as per scales of finance as under the crop loan system, loaning was essentially security-oriented, and those who owned larger holdings were able to get large sums of money without any obligation to actually use such resources for the purpose intended.

(*vii*) The banks found that recovery of dues was by no means easy because they had to depend on local office-bearers who would not always co-operate.

(*viii*) Hardly any commercial bank had succeeded in mobilising savings through the societies taken up by them.

Recommendations for the Field Level Organisation

8.42 We shall now discuss the steps that need to be taken to improve the structure of banking institutions at what might be called the field level. It is obvious that the starting point for these improvements is the strengthening of the primary credit societies in such a way that they are able to provide not only adequate credit but develop the banking habit in the rural sector by providing it with a wide range of banking services as well as certain closely allied non-banking services. In short, they have to become rural banks. Under certain conditions the primary credit societies can do this. These conditions are, first, the society itself must be a well managed efficiently run unit. Second, the society should have an assurance of the kind of technical assistance that is required to enable it to provide the credit and the banking services necessary. Where the central co-operative bank of the district in which the primary society is located is itself a strong unit, it should be possible for the primary to get most of the assistance from the central bank. Where the central bank of the district is weak, the apex bank could be the agency to give such assistance. In both these types of cases, establishment of rural banks in the co-operative sector or rural co-operative banks will obviate the need for opening of branches by central or the State co-operative banks merely for the purpose of providing banking facilities like deposit accounts, remittances, etc., to the rural areas. The central and State co-operative banks can concentrate their attention on meeting the needs of other productive and of

distributive activities in the co-operative sector. Since, however, in many States both the district and the State level co-operative banks need to strengthen themselves, it will be necessary to think in terms of commercial banks providing such assistance. Third, certain legal steps are necessary to enable the primaries to function as rural banks. These have been dealt with in Chapter 19.

8.43 It was mentioned earlier that out of the 1.63 lakhs of societies, around 51,000 satisfy one of the indices of potential viability, *viz.*, appointment of a full-time paid Secretary. However, upto March 1971 only about 30,000 societies had received Government share capital contribution which is another index of potential viability. A number of such societies which satisfy both these indices can be converted into rural banks provided they are able to get the requisite technical assistance from the central or the State co-operative banks. In view, however, of the relatively small number of such higher level co-operative institutions which can do so, it is necessary to think of other solutions to the problem of extending the geographical coverage of banks. Three methods are being tried out at present for this purpose. Two of them, namely, opening of branches by commercial banks and financing of a group of primary agricultural credit societies by commercial banks have already been mentioned. The third method which has been tried out by the State Bank Group is the Village Adoption Scheme. The object of this scheme is to make intensive efforts to reach all economically viable farmers, irrespective of the size of their holdings. Even small farmers who are potential producers for the market are covered and for determining their repaying capacity, their income from all productive activities is taken into account. The scheme also provides for the system of 'group guarantee'. By the end of June 1971, as many as 1,145 villages are reported to have been covered under the scheme. The number of farmers assisted directly stood at 2.56 lakhs, 76 per cent of whom had holdings of 4 hectares and less and those having holdings of 2 hectares and less formed 51 per cent.

8.44 Of these three methods, opening of branches by commercial banks or village adoption can develop the banking habit and provide the full range of banking services to the rural sectors. At the same time, they can result in the extinction of the co-operative endeavour in the field of credit institutions. The method of financing primary societies by commercial banks can strengthen the co-operative institutions provided satisfactory solutions can be obtained to the various difficulties mentioned in paragraph 8.41. In due course many primary societies in this group can become rural banks.

8.45 It is doubtful whether all these three methods will suffice to give adequate geographical coverage of the rural sector in the foreseeable future. It is, therefore, necessary to consider whether in areas where the co-operative credit structure is generally weak an institution like a rural bank cannot be established either by making a good primary agricultural credit society to

work as a subsidiary of a commercial bank or by the commercial bank setting up its own subsidiary. Such a rural bank which may be called a rural subsidiary bank to distinguish it from the rural co-operative bank mentioned earlier (paragraph 8.42) should be an organisation which retains the useful features of co-operative credit institutions such as local participation, flexibility as regards increasing share capital, arrangements for selling shares to local people, and so on. At the same time, the parent bank will provide it with full technical and financial support and exercise control over its management. Thus, of the total capital of a rural subsidiary bank, the sponsoring bank will hold 51 per cent and the remainder will be available for the people in the area of operation of the rural subsidiary bank. In such an arrangement, the rights of the individual share holder in respect of the balance of the capital should be of the same kind as those of a primary credit society. In those cases where no local participation is forthcoming, the sponsoring bank has to provide the whole of the capital for the rural bank. It should, however, be the endeavour of the sponsoring bank to sell a part of its holding to the people residing in the area of the rural subsidiary bank.

8.46 Since the object of setting up a rural bank whether as a co-operative or a subsidiary is to extend credit and other banking facilities to all members of the public in its area, it would be necessary for those primary societies which are converted into rural banks to make some departure from their practice of not lending to non-members by creating a new class of members called 'associate' members who can avail themselves of the facilities of the bank but will not be entitled to any rights of voting or to patronage dividend. However, in order that the rural co-operative bank retains its essential co-operative character, the loan business with 'associate' members may be restricted to a reasonable limit, say 25 per cent of its total loan business. There is nothing new in admitting non-members as 'associate' members of co-operatives. Indeed, the International Co-operative Alliance Report on Co-operative Principles finds it a desirable way of inducing the smaller proportion of rural residents in the area of a co-operative, who may have remained outside the co-operative fold for some reasons, to eventually become full-fledged members.

8.47 In order to encourage local participation in the rural banks, these banks should give in their dealings, some preference to the members over 'associate' members in the case of 'rural co-operative banks', and shareholders over non-shareholders in the case of 'rural subsidiary banks'. Thus the interest rate charged to a member/shareholder for his borrowings would be somewhat lower than that charged to an associate member/non-shareholder.

Functions of Rural Banks

8.48 While the rural banks are basically banks and will perform all the banking functions, it will be desirable to enable them to perform certain

non-banking functions, such as constructing and maintaining godowns on their own, supplying, as agents, agricultural inputs and acquiring of agricultural and other equipment for leasing it out, providing assistance in the marketing of agricultural and other products and generally helping in the overall development of the villages in their area. Thus the various functions which a rural bank may be expected to assume in due course may be listed as below :

(1) Mobilise local savings by means of the various types of deposits;

(2) Provide short-term and medium-term credit for agriculture and other purposes to rural producers and provide long-term loans to agriculturists as agent of the land development bank ;

(3) Implement programmes of supervised credit tailored to the needs of individual farmers ;

(4) Provide various ancillary banking services to local people, such as remittance of funds, acceptance of insurance premia, safe deposit lockers, etc.;

(5) Set up and maintain godowns ;

(6) Undertake supply of inputs and agricultural and related equipments to farmers as agents and in appropriate cases equipment leasing ;

(7) Provide assistance in the marketing of agricultural and other products through marketing organisations ; and

(8) Generally help in the overall development of the villages in its area.

Outline of the Scheme of Rural Banks

Location and Area of Operation

8.49 A rural bank may be described as a primary banking institution set up to serve a compact group of villages generally, working as a co-operative bank or as a subsidiary of a commercial bank. Its object is to provide at one place the special type of credit and banking facilities and other related services needed by agriculturists and other rural producers. Generally, it should be possible to organise a rural bank for a compact group of villages covering a population ranging from say, 5,000 to 20,000. However, in sparsely populated areas, it may be necessary to organise a rural bank for as big an area as a development block to start with.

8.50 It is intended that a rural bank should cater to the full credit needs of all medium and small cultivators. There may be in its area some cultivators and other rural producers who may be in need of a different type of technical help and of a much larger volume of loans than a rural bank

would be in a position to provide. Such producers should have access to a branch of a commercial bank. Further, it is possible that some of the uneconomic primary agricultural credit societies which have been operating in its area for some time may continue to do so till they are wound up. Considering that the setting up of rural banks by either commercial or co-operative banks will be in pursuance of a national policy designed to bridge the credit gaps adequately, the Reserve Bank should ensure through appropriate directives that the commercial or co-operative banks should not continue to finance such uneconomic and weak credit societies while at the same time financing rural banks in the same area. The members of such societies should be eligible for finance from the rural banks. We recommend that the provision empowering the Registrar of Co-operative Societies to order winding up of societies which are uneconomic and poorly managed, may be invoked in the public interest, wherever there is such a provision. Where it does not exist, it may be provided for.

Share Capital and Borrowing Power

8.51 Where a rural bank is set up as a subsidiary of a commercial bank (the rural subsidiary bank) its minimum authorised capital should be Rs. 1 lakh of which Rs. 50,000 should be paid-up. At least 51 per cent of the paid-up share capital should be held by the sponsoring bank, the other 49 per cent being offered to the local people for subscription. Where a primary society becomes a rural bank (the rural co-operative bank) it should also have Rs. 50,000 as its minimum share capital. The special law we have recommended provides for the share capital of a rural subsidiary bank being increased suitably as and when necessary in a simple manner.

8.52 In areas where local participation is not readily forthcoming, the sponsoring bank should be in a position to put up the entire minimum capital prescribed under the law. However, the bank should offer for public subscription an appropriate part of its share capital as and when there is possibility of attracting local participation in share capital.

8.53 Irrespective of the amount of share capital held by any member of the public, the voting power of the shareholders other than the sponsoring bank should be regulated by the principle of 'one-man-one-vote' as prescribed in the special law. The sponsoring bank will have the right to nominate the majority of directors on the Board which should consist of between 5 and 9 members.

8.54 We do not consider that there is need for fixing any maximum borrowing power in the case of rural banks. Maximum borrowing power fixed as a multiple of owned funds of an institution is a device of rather limited utility. Where the institution is well managed, it becomes necessary to increase the maximum borrowing power and where it is badly managed the ceiling is not required because the institution is unable to borrow upto the

limit. Moreover, since rural banks under the scheme will be either subsidiaries of commercial banks or will be supported by strong co-operative banks and in either case they are likely to be under the effective control and supervision of the parent bank apart from that of the Reserve Bank, we do not consider it necessary to fix any maximum borrowing power.

8.55 Nevertheless, it is important to emphasize the need for building up the financial strength of the rural bank and this should be done, in our view, more by way of ploughing back the profits into the reserves than by increasing the proportion of share capital to be held by a member to the maximum amount he can borrow. This can be done by placing a ceiling on the rate of dividend.

8.56 The co-operative principle of distribution of patronage dividend to the borrowers is a healthy principle and should be applied to rural banks proposed under the scheme. The surpluses arising from the business after providing for statutory reserves and other funds in the normal course may be distributed by the rural bank to borrowers as well as to depositors in the shape of patronage dividend in order to encourage the patronage of the local people, when the financial position of the rural bank is adequately built up.

Contribution to Share Capital

8.57 The amount of resources that the commercial and co-operative banks might need every year for the purpose of enabling them to subscribe to the share capital of rural banks depends on the number of rural banks proposed to be sponsored. This is discussed later. It is important to ensure that lack of resources for the purpose of making share capital contribution to the rural banks does not stand in the way of sponsoring rural banks wherever it is considered necessary. Accordingly, we recommend that resources for the purpose may be made available from the National Agricultural Credit (Long Term Operations) Fund set up by the Reserve Bank of India which is being used for the purpose of, among other things, making long-term loans to State Governments for enabling them to participate in the share capital of co-operative banks and primary credit societies. The resources of the Fund should also be available for the purpose of making contributions to the share capital of the rural co-operative banks. The Reserve Bank of India Act may be amended for enabling it to make loans from the Fund to commercial banks directly for facilitating their sponsoring of such banks.

Other Resources

(*a*) *Deposits*

8.58 As the rural banks develop their business in the rural areas, they should be in a position to mobilise, through deposits from the local people, an increasing part of their requirements for loaning. We recommend that the rural bank should be allowed to offer a somewhat higher rate of interest

on deposits than that offered by the parent commercial bank or co-operative bank, as the case may be. The extent to which the rate can be higher on different deposits may be fixed by the Reserve Bank from time to time. In terms of the special legislation recommended, the Deposit Insurance Scheme will also be extended to the rural banks.

8.59 We also expect that rural banks, as in the case of the sponsoring banks, would be increasingly involved in making payments to the agriculturists on behalf of the Food Corporation of India and its authorised agents who make purchases of foodgrains and other commodities from them. There are definite advantages in the long run if the Food Corporation of India makes payments to the producers through the rural banks. We recommend that the Food Corporation of India may do this, on an experimental basis, wherever rural banks are set up. Similarly, where the system of compulsory procurement exists the State Governments can utilise the rural banks for their payments to farmers.

(*b*) *Borrowings*

8.60 A good part of the resources of the rural banks, however, would come from the higher level banks whether co-operative or commercial. Those set up by co-operatives may, however, supplement their resources by borrowing from a commercial bank as and when necessary. It is important, however, that the rural banks get some concessional credit facilities in order to off-set to an extent the relatively high interest cost on the deposits they collect locally. These concessional credit facilities should be the same as are available to the co-operative credit system. That is to say, there should be a uniform policy regarding concessional credit facilities from the Reserve Bank, irrespective of the channel through which they are made available. The rural borrower should pay the same interest whether he borrows from a primary co-operative or from a rural bank.

8.61 For practical considerations, we do not consider it desirable for the rural banks to seek direct refinance from the Reserve Bank of India. The higher level institution, *viz.*, the central co-operative bank or the sponsoring commercial bank will be the link with the Reserve Bank. It is, however, necessary to ensure that the borrowings of the commercial bank for financing its rural subsidiary do not result in penalising the commercial bank in obtaining refinance for its own purposes. The Reserve Bank will have to make appropriate changes in its policy in this regard.

Requirements Regarding Liquid Assets

8.62 In view of the fact that the rural banks will operate in areas where current deposits of a significant order are not likely to be collected, we recommend that the norms for maintenance of liquid assets by rural banks

should be lower than those for other banks. Further for both types of rural banks, the balances maintained by them with the higher level banks should be regarded as liquid assets.

Other Facilities

8.63 These banks should be given by parent banks, remittance facilities free of cost and training facilities for personnel including technical personnel and personnel on a loan basis at subsidised costs in the initial years.

8.64 We also recommend that the rural banks should be eligible for participating in the guarantee schemes designed for ensuring adequacy of credit facilities to small and neglected sectors and that the dividends on shares held in rural banks by individuals should receive the same exemptions as are available to the dividends paid on units of the Unit Trust of India.

Personnel

8.65 We should like to emphasise here that the success of a rural bank depends on the type of men put in charge of it. The staff of the rural banks should have the requisite background and training consistent with its functions. It is important that either the manager or the official next in line should have proper training in farm management and agricultural credit.

IMPLEMENTATION

8.66 The first priority in establishing rural banks should be given to the well-run primary agricultural credit societies. Each central co-operative bank which has the necessary organisational strength should select a few such primary societies every year for conversion into rural banks. Where such societies exist in the area of operation of a weak central co-operative bank, the concerned State co-operative bank can take such action if it can provide the necessary technical support. Where it is not practicable for the higher level co-operative banks to undertake such responsibility the primary credit society may be allowed to become a subsidiary of a commercial bank. Where the whole co-operative structure is weak, the commercial banks should set up rural subsidiary banks on their own. The establishment of the rural subsidiary banks will necessarily be somewhat slower than those of the rural co-operative banks as it will take time to sort out the various practical problems of running such banks. We recommend, therefore, that commercial banks should take up this work on an experimental basis for a period of five years and establish rural subsidiaries in some of their lead districts. The experience gained during this period will decide the future of the scheme.

8.67 In particular, we consider that there are two types of districts where this type of organisation in our view can be tried out first. First, there are the agriculturally advanced districts with a rich deposit potential

as well as scope for further agricultural development. What are known as 'package' districts, the cash crop districts and parts of those where high yielding varieties programmes have been introduced in a big way come under this category. Secondly, there are areas which have been identified as having considerable potential for development of agriculture, agro-industries and related rural activities but much development has not taken place on account of lack of banking and credit facilities.

8.68 Since the Reserve Bank will have to license the rural banks, it should also have the responsibility for ensuring that the Scheme of rural banks is implemented properly. It will have to co-ordinate the rural bank programmes of the commercial and co-operative banks and formulate suitable guidelines for their working.[1]

Need For Special Legislation

8.69 Under the existing laws, co-operative banks are registered under the Co-operative Law, and others under the Company Law. In either case a new 'bank' requires a licence before it can start its business. While rural banks can be established both in the co-operative sector and outside it, the present legislation needs to be changed to facilitate speedy establishment and smooth functioning of these banks. In particular, for the rural banks which will be subsidiaries of the commercial banks, the Company Law is very cumbersome and costly. There are also disadvantages in registering rural banks sponsored by them under the Co-opeative Law. For one thing, such rural banks would have to confine their operations only to members of co-operatives. This means that in areas where the membership of co-operatives is low such rural banks will not be able to bridge the credit gaps and thus the whole purpose of setting them up would be defeated.

8.70 Secondly, the commercial banks will find it hard to implement the programmes, if they are required to deal with several State Governments at the same time, not only for the setting up of rural banks but also in the process of running them. Besides, the co-operative principle of democratic management would come in conflict with the controlling interest of the sponsoring bank in a co-operative rural bank.

8.71 Thirdly, registration of rural bank sponsored by either the commercial or co-operative banks under the Co-operative Societies Act of States imposes heavy burdens on the co-operative department in several States both for registering the banks as well as for the administration of the provisions of Co-operative Laws in relation to such banks. Under the existing laws, the Registrar of Co-operatives has wide-ranging powers over co-operative banks particularly relating to compulsory amalgamation, financing of non-members, borrowings, loans, investments, etc. Since under the proposed

[1] The detailed procedure is given in Chapter 19, paragraph 19·71.

scheme, the Reserve Bank has the responsibility to ensure that the scheme is implemented properly, it is necessary that all such powers should also be vested in the Reserve Bank.

8.72 In view of the above, the Commission recommends that separate legislation should be enacted by the Parliament in order to enable rural banks being set up quickly and in a fairly simple way without straining too much the organisation and resources of either co-operative or commercial banks. The lines along which such legislation should be framed are given in Chapter 19.

8.73 Pending the enactment of the new legislation, we recommend that appropriate amendments may be made to Co-operative Laws in different States to enable the setting up of rural co-operative banks expeditiously along the lines recommended by us.

General Observations Concerning Rural Banks

8.74 Under the scheme outlined in the preceding paragraphs, rural banks will in most cases represent the logical development of the well-run primary agricultural credit societies. Where the primaries though strong are not able to get assistance from the higher level co-operative institutions they may have to become subsidiaries of commercial banks in order to get the necessary technical and financial support. But they can still retain the advantages of being a co-operatively organised institution. Even where both the primaries and the higher level co-operative institutions are weak and a rural bank is to be established as a subsidiary of a commercial bank the scheme envisages such a rural bank to incorporate the advantages of a co-operatively organised institution. This emphasis on co-operation is essential in our view because the co-operative credit institutions have played an important role in many areas of the country, have built an organisation at the grass root level and have acquired insight into the rural problems. Properly managed and operated, co-operative banking and credit structure can be a source of strength to the whole credit structure of the economy. Under certain conditions, the local participation, democratic management and responsiveness to local needs and urges that co-operative organisations characterise make them the ideal type of institutions to be sought after.

8.75 In recommending the establishment of rural banks, we are not unaware of the difficulties and problems that such banks, especially those to be sponsored by commercial banks, will face. The right type of local participation, which is an essential feature of the scheme, may not be forthcoming. The problem of management and staffing may prove to be difficult in many areas. The sponsoring banks may find the supervision and control of their subsidiaries more difficult and even more costly than control of branches. Some of these difficulties may, however, be expected to fade out

after the initial stage. What is more important is that in the large and complex situation in the field of rural credit in India, there will remain a large gap even after the maximum possible branch expansion has been tried by the commercial banks. There cannot be any one solution to this extensive residual problem and all possible alternatives should be tried. Rural banks established by transforming good co-operatives into all-purpose credit institutions will be the logical culmination of the process of evolution of the co-operative system. Here the rate of conversion should proceed as rapidly as practicable. We have recommended for the subsidiaries of commercial banks, an initial experimental phase of five years, during which only a limited number of such banks should be established. The experiment will indicate the strong points as well as the weak points of the new institutions. It is not unlikely that the experiment will have different degrees of success and create different types of problems in different areas. The emergence of the problems during the experimental period should not be taken as a reason for the abandonment of the scheme. The objective should be to discover how these problems can be solved, so that the scheme can be expanded to cover all the rural areas which remain without banking facilities.

8.76 The rural banks will succeed in discharging the wider responsibilities they are required to assume only if they get adequate technical and financial support so that they can be run on sound banking lines. The initial selection of the primary society or the area in which the rural bank is to operate, the training its staff gets, the managerial support it can get from the central co-operative or the commercial bank, the kind of discipline these banks are able to maintain, all such factors count. The early years of the operation of the scheme are crucial from this point because they will throw up the various practical problems these banks are likely to face. But we have no doubt that once such problems are successfully handled the rural banks will go a long way in providing the kind of banking facilities Indian agriculture needs over the coming years. At the same time the emphasis on rural banks does not imply that other methods of providing banking facilities are ruled out. In the present Indian context the need is to try out various alternatives with a view to finding out which particular method is suited to an area of a given type. What is essential is that the banking and credit arrangements in any area are capable of making a significant impact on the development of the agriculture and the local industry in that area.

CHAPTER 9

CO-ORDINATION BETWEEN COMMERCIAL AND CO-OPERATIVE BANKS II: LOAN POLICIES AND PROCEDURES

INTRODUCTION

9.1 In this chapter, we propose to examine the question of co-ordination between commercial and co-operative banks in the matter of their loan operations. Reference may be made in this connection to Chapter 4 which gives a brief account of some of the important schemes introduced by commercial banks for lending to agriculture. An examination of these schemes as well as the comparison of the commercial banking system with the co-operative banking system made in Chapter 3 brings out prominently the fact that because of their inherent strength, commercial banks are in a position to adopt flexible policies in their lending operations to agriculture. The major part of the problem of co-ordination between these two types of banks in lending to agriculture centres round this fact. Ways have to be found to take advantage of the possibilities of innovation in this field in order that both types of banks are able to adopt lending policies which suit the requirements of the various types of agriculturists. It will be useful in this connection to describe briefly the views of the State Governments, the banks and others as to the manner in which such co-ordination should be brought about.

9.2 At the outset it may be stated that fears have been expressed by some State Governments and co-operative banks that the entry of commercial banks into the sphere of agricultural finance would result in a loss to the co-operatives of their 'good' business and they would, therefore, become weaker still. At the same time, there are State Governments and co-operative banks which expect improvement in the efficiency and better management of co-operatives as a result of the entry of commercial banks. The view that a healthy competition between the two sectors would benefit co-operatives in the long run in terms of efficiency and reduction of cost of services to borrowers has been expressed generally by the States and the co-operative banks where co-operatives have progressed well. They point out that unless the co-operatives improve their services, their future is not assured and, therefore, everything should be done to remove the handicaps and rigidities which adversely affect their performance, while at the same time, taking measures to improve their resources and management.

9.3 A number of suggestions have been made by Governments and co-operative banks on how best to evolve complementarity between co-operative and commercial banks in agricultural credit. These range from demarcation of areas between the two, to requiring commercial banks to finance large farmers, non-members, for purposes not covered by co-operatives, and for amounts beyond the limits provided by the co-operatives, leaving the rest, particularly the needs of the small farmers to be met by co-operatives. There was even a suggestion that healthy competition between the two should be promoted by enabling commercial banks to open branches in the rural areas. Some of the banks reporting from areas where co-operative coverage is high suggested that the entire finance should be channelled through co-operatives and where commercial banks finance rural production, their rate of interest should be slightly higher than that charged by the co-operatives.

9.4 Generally, however, most of them agreed that the scope for expanding agricultural finance is so large that there would be no danger of the growth of co-operatives being hampered in any way. The growth of co-operatives depends on how soon the various handicaps under which they operate at present are removed, and how best co-ordination arrangements can be evolved. It has been also pointed out, in particular, that there should be no attempt on the part of commercial banks to finance defaulter-members of co-operatives or to finance the same persons on the same security, over once again.

9.5 Like the co-operative banks, national banks also suggested that suitable co-ordination arrangements should be made between the two sectors of banks. However, they were averse to any reservation of areas or preferential treatment being given either to co-operative or commercial banks. In their view there is no question of commercial banks supplanting co-operatives and, from a long-range point of view, healthy competition would be in the best interests of both. This is possible only when they operate under similar conditions without either of them being subjected to handicaps — legal or otherwise. Some of them expressed a view that commercial banks are perhaps in a better position to provide development loans than co-operative banks on account of their better position in terms of resources and expertise. Reservation of areas as such is considered undesirable by many of the banks because in the ultimate analysis it would result in inefficiency and defeat the purpose of nationalisation of banks. Besides, it would come in the way of co-operatives developing a competitive spirit and improving their efficiency. Some banks, however, have not altogether ruled out the desirability of reservation of business on a functional basis in the areas where the co-operatives have been able to satisfy agricultural credit needs to a very great extent.

9.6 In the light of the foregoing the main objectives of co-ordination between the two types of banks in regard to agricultural credit may be stated as follows : (*a*) no area is starved of adequate credit facilities for agriculture

and other developmental purposes ; (*b*) while a person should be able as far as practicable, to borrow from a bank of his choice, multiple lending for the same purpose should be avoided ; (*c*) the borrower from the co-operative society or a co-operative rural bank should not be at a disadvantage *vis-a-vis* a borrower from a commercial bank or its subsidiary rural bank and *vice versa* in terms of either the quantum of credit or type of credit, or other terms and conditions relating to it ; (*d*) neither type of banks should adopt practices which operate to the disadvantage of the other in the matter of borrowing facilities ; and (*e*) both types of banks should benefit from each other's experience so that their range and standard of services improve.

Some Features of Co-operative and Commercial Bank Agricultural Credit

9.7 We have earlier made a reference to the reasons for the uneven growth of co-operatives. Similar unevenness is in evidence in the case of commercial banks also (Table 9.1). Four States account for 49 per cent of total loans of co-operatives. Five States account for 65 per cent of commercial banks' credit. Co-operative credit is mainly for agriculture whereas in the case of commercial banks credit for agriculture has so far remained a small proportion of their total credit. Agricultural loans by co-operatives account for nearly 80 per cent of the total loans at the apex level, 74 per cent at the central bank level (See Table 9.2) and 94 per cent at primary level for the country as a whole as at the end of June 1970. Commercial banks' credit for agriculture amounted to just 5 per cent of their total advances as on March 31, 1971. Medium-term credit forms a rather low proportion of the credit given by the co-operatives. On the other hand, commercial banks have made sizeable medium-term loans since they launched the scheme of agricultural finance.

9.8 One of the major difficulties faced by the co-operatives is overdues which have increased steadily. At the end of 1969-70 they amounted to 37.7 per cent of the outstanding loans at the primary level. For the country as a whole, 141 central banks showed overdues exceeding 25 to 50 per cent of outstanding loans in 1969-70, as against 95 banks in 1964. Similarly, the number of banks showing overdues exceeding 50 per cent of outstanding loans rose from 44 to 83. It is too early as yet to say to what extent commercial banks are likely to face this problem.

Areas of Co-ordination — Loan Policy

9.9 Next in importance to co-ordination in geographical coverage at the primary level is co-ordination in the sphere of lending. As we see it, a sound and progressive system of credit, whether followed by co-operative or commercial banks, should have certain well understood goals. It should (*a*) provide integrated and comprehenisve credit facilities to all the producers, (*b*) be based on the purpose of the loan and in particular the improvement

TABLE 9·1—AGRICULTURAL LOANS OUTSTANDING (SHORT, MEDIUM AND LONG-TERM) MADE BY CO-OPERATIVES AND SCHEDULED COMMERCIAL BANKS

Name of the State	Co-operative sector (Outstandings as on 30-6-1970) (Rs. in crores)	Of which short and medium-term loans (Rs. in crores)	Direct finance by commercial banks (outstanding as on 31-3-1971) (Rs. in crores)	Total agricultural loans outstanding* per thousand rural population (Rs. in thousands)
1	2	3	4	5
1. Andhra Pradesh	110·55	35·21	30·85	41
2. Assam	5·82	5·52	0·61	6
3. Bihar	27·39	19·31	4·23	6
4. Gujarat	166·76	86·87	28·78	107
5. Haryana	33·05	17·24	4·26	49
6. Himachal Pradesh	7·52	6·53	0·09	24
7. Jammu & Kashmir	4·64	3·09	0·09	12
8. Kerala	36·09	29·79	11·64	28
9. Madhya Pradesh	90·14	73·25	6·61	30
10. Maharashtra	251·54	142·14	41·87	84
11. Mysore	78·71	43·82	24·88	49
12. Nagaland	0·01	0·01	Nil	—
13. Orissa	28·73	19·75	0·95	16
14. Punjab	83·96	50·60	8·56	89
15. Rajasthan	28·99	21·18	9·17	19
16. Tamil Nadu	110·94	56·84	32·58	51
17. Uttar Pradesh	135·80	80·52	18·22	21
18. West Bengal	20·85	17·01	7·45	9
19. Union Territories	3·17	2·75	4·24	21
Total	**1224·66**	**711·43**	**235·08**	**35**

* Total of Columns 2 and 4.

— Negligible.

Source : Reserve Bank of India.

TABLE 9·2—CLASSIFICATION OF LOANS ISSUED BY CENTRAL CO-OPERATIVE BANKS—PURPOSEWISE AND PERIODWISE

Name of the State	June 30, 1962					June 30, 1970				
	Total loans issued (Rs. in lakhs)	Short-term		Medium-term		Total loans issued (Rs. in lakhs	Short-term		Medium-term	
		Agricul-tural	*Non-agri-cultural*	*Agricul-tural*	*Non-Agri-cultural*		*Agricul-tural*	*Non-agri-cultural*	*Agricul-tural*	*Non-agri-cultural*
		(in percentages			)		(in percentages			)
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	3298	83	13	3	1	3389	77	15	5	3
2. Assam	34	93	2	5	—	246	81	18	—	1
3. Bihar	284	68	7	24	1	1213	79	10	10	2
4. Gujarat	7143	59	39	1	1	13647	62	31	6	1
5. Haryana	—	—	—	—	—	1767	81	13	5	1
6. Himachal Pradesh	—	—	—	—	—	99	62	22	15	2
7. Jammu & Kashmir	115	94	6	—	—	453	58	40	1	1
8. Kerala	821	37	42	10	11	2851	68	23	3	6
9. Madhya Pradesh	1998	73	15	9	3	5829	81	7	11	1
10. Maharashtra	9427	67	30	2	1	22595	63	33	2	2
11. Mysore	2755	73	22	3	1	7159	63	33	2	2
12. Orissa	520	57	7	30	6	949	84	5	8	3
13. Punjab	1515	77	17	3	3	7163	86	10	3	1
14. Rajasthan	643	91	5	3	1	1789	79	8	9	4
15. Tamil Nadu	5643	38	36	6	20	8301	56	34	6	4
16. Uttar Pradesh	3744	93	4	2	1	7176	82	8	9	1
17. West Bengal	492	91	7	1	1	1249	80	13	6	1
Total	**38432**	**66**	**26**	**4**	**4**	**87251***	**69**	**24**	**5**	**2**

* This includes Rs. 1375 lakhs for which break-up is not available.

Source : Statistical Statements Relating to the Co-operative Movement in India, 1961-62 and 1969-70.

of productivity it can achieve through modernisation and diversification of farming, and (*c*) be responsive to individual needs, in matters such as the quantum, timing of sanction, spacing of disbursements, and the degree of technical help and supervision needed.

Formulation of Loan Policies

9.10 Available evidence shows that, by and large, the goals of loan policies, though generally understood as promotion of production, are not well appreciated by co-operatives in their total context. This seems to be due, mainly to the fact that those who formulate policies for agricultural development are not associated with the policy making bodies for agricultural credit at various levels. At the implementation level too, lack of involvement of agriculturists does not ensure the feed-back of information about the effectiveness of policies. Some of the State Governments replying to the questionnaire have suggested in this context that loan policies formulated for the co-operatives would become more flexible and responsive to local needs if representatives of the State Departments of Agriculture, commercial banks and research workers from agricultural universities are also associated in their formulation. They have suggested that the responsibility of laying down details of loan policies should be left to the State bodies within the framework of guidelines laid down by the Reserve Bank of India.

9.11 In the case of commercial banks, most of the national banks have developed policies relating to agricultural finance more or less after their nationalisation. In this they have been able to draw on the advice of agricultural specialists. Some of them have appointed agricultural technicians at the field level to communicate with the farmers and to judge the adequacy of their policies.

Content of Loan Policies

9.12 In the case of co-operatives the content of loan policies is spelt out in the crop loan system. The crop loan system was evolved by the Bombay Provincial Co-operative Bank and was first tried in the erstwhile Bombay State in 1948-49. Later it was recommended for general adoption by the All-India Rural Credit Survey Committee (1954) and was introduced by the Reserve Bank through the co-operative banks all over the country in 1965. This system represents a major step forward to divorce loaning from security and to link it to production needs. The object is to relate short-term credit to the estimated credit needs for raising the crop. The main features of the system as it has evolved are : (*i*) determination of the quantum[1] of loan

[1] The quantum of loan a farmer is eligible for is determined with reference to a scale of finance which consists of (*a*) cash component which is generally not to exceed one-third of the gross value of crops produced at the traditional level of cultivation, (*b*) a kind component representing the outlay on input and (*c*) an additional cash component upto 50 per cent of what is drawn under (*b*) to absorb the expenditure in the application of inputs. (Crop Loan Manual, Reserve Bank of India).

in relation to the production outlay and repaying capacity, (*ii*) disbursement of a substantial portion of the loan in kind, (*iii*) seasonality in advancing and repayment of loans, (*iv*) advancing of loans against the security of expected crops rather than against title to land and (*v*) streamlining of procedures for sanction and disbursement. Under the scheme, the repaying capacity of the borrowers is to be estimated at 50 per cent of the gross estimated value of crops produced under the traditional level of cultivation. A part of this (35 per cent of the estimated value) is reckoned as available for repayment of short-term loan and the balance for the repayment of instalment of medium-term loan.

9.13 In principle, most of the States have accepted the system. The All-India Rural Credit Review Committee which reviewed the implementation of the crop loan system in different States found, however, that several features of the system were not, in practice, being implemented.[1] The Committee recommended a number of refinements, including scales of finance being fixed by a group of experts conversant with agricultural operations instead of by a field workers' conference, introducing the system of working out credit needs with reference to individual requirements instead of on uniform basis, etc. The latter would facilitate, according to the Committee, inducing substantial cultivators to use a part of their own resources for meeting their working capital needs. Among other things, the Committee emphasised the need for flexibility in the matter of disbursement of the 'b' component representing inputs and of the principle of seasonality in disbursement and recovery of loans. The cash credit type of accommodation was recommended on a trial basis to cultivators engaged in multiple cropping.

Purpose of Loans

9.14 Under the crop loan system, short-term loans are made for meeting the cost of seasonal agricultural operations,[2] including purchase of inputs and marketing of crops. Medium-term loans are made for identifiable purposes, *i.e.*, sinking of wells, purchase of oil engines and pump sets, reclamation of land, purchase of bullocks and milch cattle, construction of farm houses, purchase of agricultural implements, purchase of shares in co-operative sugar factories, etc. There is a general reluctance on the part of the banks, though there are some exceptions, to extend credit facilities for purposes other than those specified by the Reserve Bank as eligible purposes.

9.15 Most of the State Governments and apex and central banks that replied to the questionnaire have suggested that in making loans to farmers, their entire needs must be taken into account and that the loans should be

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1 *Report of the All-India Rural Credit Review Committee*, Reserve Bank of India, 1969, pp. 466, 472, 473, 481 to 484.

2 Agricultural operations include animal husbandry and allied activities jointly undertaken with agricultural operations.

granted on the basis of their expected farm and non-farm income and repaying capacity. This would ensure that adequate short-term credit is available in cases where medium or long-term loans are advanced for improvement of land, provision of irrigation facilities, etc. From the farmer's point of view, it would be advantageous because he would not be required to approach different agencies for satisfying his needs. There were also suggestions that loans should be given for purchase of land and construction of houses and that working capital expenses relating to cottage industries carried on by farmers should be met by the primary institution.

Adequacy of Credit

9.16 Under the crop loan system, adequacy of credit for seasonal agricultural operations is sought to be ensured by (*a*) fixing scales of finance for different crops and (*b*) relaxing or removing the limit of individual maximum borrowing power. Certain limitations of fixing scales of finance for different crops have already been pointed out by the Review Committee. One of the major limitations of this system is the uniform application of scales of finance.

9.17 The Governments and banks which replied to our questionnaire have pointed out that heavy overdues came in the way of banks and societies raising adequate funds and that many banks were not adequately equipped to implement the crop loan system. Some banks complained that the system lacked flexibility and the procedures and forms were somewhat complicated. Others have found that the demand for credit worked out on the basis of crop loan formula was so great that it was beyond the capacity of banks to satisfy. The Review Committee has stressed the need for fixing separate scales of finance for different parts of a district and also separately for wet and dry areas. While this refinement may be adequate for areas where agriculture, by and large, continues to be traditional, it is also necessary to introduce further flexibility in the system so as to enable it to provide adequate credit where improved agricultural technology is adopted in individual cases. Otherwise it will be difficult to ensure the development of farmers into efficient producers because whether one is efficient or inefficient, the quantum of credit that he gets is the same in accordance with the scales fixed. In some cases the scale of finance is too small to promote intensive or diversified occupations.

Security

9.18 Under the crop loan system, though the loan is expected to be secured by the anticipated crop, in practice, security plays an important role even when the credit limit in each case is fixed on the basis of the scale of finance and acreage. Several borrowers were found to draw loans only upto the extent of the surety limits. These limits in many States do not exceed Rs. 1,000, and in some States they are as low as Rs. 250.

9.19 Loans in excess of the surety limits mentioned above can be made when sureties are supported by declarations executed by the borrowers creating a charge on their land or their interest in land in favour of the society. In some States, medium-term loans beyond Rs. 1,000 and upto Rs. 1,500 are made against charge on land and loans beyond that limit are made against mortgage of land. From time to time the Reserve Bank has relaxed the limit upto which medium-term loans could be made against sureties and/or against declarations. At present, medium-term loans upto Rs. 3,500 can be given against such declarations for pump sets, electric motors, tractors, power tillers, etc., where a certain proportion of investment is borne by the borrowers. The collateral security of the asset bought with the loan is obtained.

9.20 Where the system of creation of charge does not exist, not all borrowers are willing to go through the processes of mortgaging land to the society. Members are also reluctant to execute either declarations or mortgages in favour of the society unless the latter is in a position to satisfy their entire credit needs. These limitations hold good even where the societies are financed by commercial banks.

9.21 The question, therefore, arises as to how it could be ensured that the loan facility does not become restricted on account of the limited range of acceptable security. A few State Governments have reported the practice of some of the banks extending loans against the collateral of dairy cattle, pump sets, machinery, bullocks, etc., although it is not widely prevalent. However, a charge on anticipated or standing crops seems to be the most widely accepted form of security next only to mortgage.

9.22 Governments and co-operative banks were asked to indicate what kind of safeguards banks would need if they were to accept as security for loans assets other than the traditional forms of security. Some have suggested that co-operative dues should be recoverable as arrears of land revenue or that the lending institution should have legal authority to stop the movement of the crops hypothecated. It should be made obligatory for the agents buying produce from the farmers to pass on that part of the sale proceeds to the society as would be adequate to clear the dues of the borrowers. It was also suggested that there should be a system of financing of groups of cultivators with the group leader guaranteeing the repayment. Many of them have suggested crop and cattle insurance or Government guarantee. To several central banks, the question of security presents a major problem in the case of oral-contract tenants and others not in a position to provide one or the other types of security normally accepted by banks. They suggest that loans to such tenants should be guaranteed.

9.23 What is important under a progressive loaning system is to increase the capability of the farmer to increase his overall income, which results from his improved productivity and efficiency of management. The

system of credit should increasingly emphasise building up of these qualities in the borrower which make tangible security a matter of secondary importance. At the same time, such a system of credit should also enable farmers to acquire assets which help improve their productivity and risk-bearing ability.

9.24 Available data show that there is considerable scope for our credit system developing in that direction. In 1961-62[1] the real estate assets of the cultivator households including land and buildings alone accounted for nearly 84 per cent of the total tangible assets. Live-stock accounted for 7.7 per cent, farm and non-farm equipment used by cultivators accounted for hardly 2.8 per cent of such assets. Intangible assets of all the cultivator households, including financial assets, were estimated to amount to only 1.4 per cent of their total assets.

9.25 It is important to note that over 50 per cent of the rural households in the country had assets valued at less than Rs. 2,500 each and the value of assets held by them was slightly less than 10 per cent of the total value of assets for the country. As for the cultivators, 41 per cent of them were in the asset group of less than Rs. 2,500 each. In the case of non-cultivators, those belonging to this group accounted for 86 per cent of the non-cultivator rural households.[2]

9.26 It may be mentioned in this connection that 38 per cent of the total loans made by the primary societies and outstanding as on June 30, 1970 were secured by personal sureties, 33 per cent by immovable property, 20 per cent by charge on anticipated crops and 7 per cent by produce and 2 per cent by others.

9.27 One important weakness of the formula under the crop loan system is that it does not provide for taking into account the income from sources other than agriculture for the purpose of assessing repaying capacity. Further, repaying capacity is worked out in a very general way, though the need for working it out precisely is recognised. As a result, under the existing formula, individual variations in efficiency, productivity and ability to manage resources to the best advantage are not taken into account. Another weakness is that the repaying capacity is worked out in a uniform manner for all borrowers with reference to the gross value of produce under the traditional methods of cultivation. This can result in an under-estimation of the repaying capacity of a farmer employing better agricultural technology.

9.28 In reply to our questionnaire, banks and Governments have generally stated that they follow the methods recommended by the Reserve

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1 Data are not readily available for any other subsequent year. *All-India Rural Debt and Investment Survey, 1961-62.*

2 For details see *Reserve Bank of India Bulletin,* June 1965, pp. 806-811.

Bank in estimating repaying capacity. Some have suggested that the repaying capacity should be based on the market value of the produce. Many have recommended that non-agricultural incomes should be taken into account. Some have suggested that there should be a uniform formula both for commercial and co-operative banks for reckoning the repaying capacity.

Financing of Small Farmers

9.29 There is a major credit gap in respect of small farmers. For the country as a whole, land holdings of the size of less than 2.02 hectares each account for 62 per cent, and those with less than 4.04 hectares account for 82 per cent of the total operational holdings.[1] There are roughly 40.6 million such holdings, accounting for 40 per cent of the total area under cultivation. A good part of co-operative credit (40 per cent of the total in 1969-70) goes to small farmers. But as the Review Committee observed, ".... a substantial proportion of small cultivators did not obtain co-operative credit at all and that those who did, received too little of it in relation to their needs."[2]

9.30 Financing of small and subsistence farmers and oral-contract tenants has always been a problem for the co-operatives. It would be more so for commercial banks. Such farmers are numerous, their needs are not only for production, but also for consumption ; they have low repaying capacity, and in most cases their marketable surplus is limited or negligible. They cannot offer adequate security either for developmental loans or for short-term loans. Where they are tenants, they can raise loans on the strength of a 'charge' created on their interest in land as tenants, where such provision exists ; but where they are oral tenants they can execute neither a declaration nor a mortgage ; often they find it difficult to furnish even sureties.

9.31 In their replies some Governments have expressed a view that the responsibility of financing small and marginal farmers should be that of the State Governments. One suggestion is that there should be a department of the State Government to take care of the rehabilitation of small and marginal farmers. There are a few others who felt that co-operatives who finance such farmers should be adequately compensated by the State Governments.

9.32 The State and central co-operative banks also seem to regard financing of small and marginal farmers as the responsibility of State Governments. They feel that where the co-operatives undertake this responsibility their risk should be properly covered by the State Governments. Some of the

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[1] *Indian Agriculture in Brief* (Tenth Edition), Directorate of Economics and Statistics, Ministry of Food, Agriculture and Community Development, Government of India, 1970, p. 48.
[2] *Op. cit.* p. 563.

central banks have supported the setting up of separate agencies like the Small Farmers Development Agency or separate Agricultural Credit Corporations for the purpose.

9.33 The Small Farmers Development Agency recommended by the All-India Rural Credit Review Committee is designed to meet the problems of small farmers on an experimental basis in selected districts. An important feature of the scheme is that it recognises the principles of combining credit with extension service and individual approach. The Fourth Five-Year Plan provided for setting up of such agencies in 46 districts and many of them have been registered. It is proposed to cover during the five-year period 40,000 to 50,000 small farmers who are potentially viable in each selected district. The short-term credit needs at Rs. 500 per farmer are estimated to go up from Rs. 25 crores in the first year to Rs. 100 crores in the last year of the Plan, a part of which will be provided by co-operative banks and the remainder by commercial banks. They are also expected to provide long-term loans roughly on an average scale of Rs. 1,000 per cultivator to 7,500 cultivators. In another 40 districts similar projects for marginal cultivators and agricultural labourers have been launched. About 20,000 marginal farmers are expected to be covered of whom 50 per cent might be having land upto one hectare each.

9.34 The Reserve Bank of India has relaxed its normal standards applicable to the sanction of credit limits and sanction of loans to State Governments for share capital contribution in the case of co-operatives operating in the districts where these projects have been launched. In addition, the co-operative banks and the societies operating the schemes receive contributions to the risk fund. The Agency is expected to provide the required assistance for identifying the farmers and to extend technical assistance for preparing production plans for them. The central banks are required to earmark certain proportion of their credit limits for financing the small and marginal farmers.

9.35 It is too early to know what impact these special programmes will make on the problems of small viable farmers. Their limitations too will be known only when they have been under implementation for a few years.

9.36 While the implementation of these programmes should continue on an experimental basis, it is important to note that small farmers are not concentrated in any one district but are dispersed all over the country. Their problems will, therefore, have to be viewed in the wider perspective of equipping the institutional structure designed to cater to rural needs to satisfy their needs also to the maximum extent.

9.37 It is well recognised that essentially, the problems of small and marginal farmers call for an integrated approach to their requirements com-

bined with supervised credit. Unless the institution which is in direct touch with the rural producers is adequately equipped to provide integrated services combined with credit, a complete answer to the problem is not likely to emerge. It may be noted that the Farmers Home Administration in the U.S.A., has been very successful in combining loans with technical assistance. Though conditions in India differ considerably from those in the U.S.A., some valuable lessons can be derived from their work and experience.

Farm Guidance

9.38 To our question whether farm guidance was necessary to farmers and whether they had arrangements to provide such guidance from the co-operative banks, the answer of the reporting co-operative banks generally was that the farmers needed guidance but the co-operative banks were not in a position to provide such guidance. Extension work is done by the Government departments such as Agricultural Department, Panchayat Samitis, Block Development Offices, etc. According to the banks, there is no link between credit and extension work in most areas. The co-operative banks have generally stressed that there is need for suitable arrangements to provide comprehensive farm guidance to farmers in order to improve their methods of farming and viability, and to ensure proper use of credit and its prompt repayment. Further, many of the banks have suggested that (*a*) extension work at the field level should be geared up and the contacts of the credit institutions with the farmers should be made more effective ; (*b*) the local leadership and the directors of the credit institutions should be well informed on the goals of the loan policies ; (*c*) all the requirements of the farmers should be met by one agency and the credit institutions should be properly equipped to enable them to give farm guidance, and towards this end banks should appoint agricultural graduates properly trained in credit or they should start consultancy service in agriculture ; and (*d*) farmers should be systematically educated in improved methods of farming and in subsidiary occupations, etc., and they should be provided with adequate marketing finance and advice in marketing.

9.39 Some banks recognised that small banks would not be able to employ farm guidance specialists and, therefore, suggested that major credit institutions should join together and maintain technical cells and that the Government should provide subsidy for the appointment of technical staff by banks. The technical personnel should also train the secretaries of co-operative societies and the supervisors of the banks. A suggestion has also been made that initiative and leadership in the matter should come from the apex banks.

Legal and Other Problems Mentioned by the Commercial Banks

9.40 The commercial banks have stated that there were a number of legal problems which come in the way of their effective performance in

lending to agriculture. These problems have been examined by the 'Expert Group on State Enactments having a bearing on Commercial Banks Credit to Agriculture', set up by the Reserve Bank of India, in September 1969. This Group made a number of recommendations with a view to removing the restrictive features of the various State enactments, particularly those relating to rights of alienation of land or interest therein in favour of commercial banks. The recommendations also aim at providing certain facilities which are now available to borrowers from co-operatives to the borrowers from commercial banks also because in the Committee's view "these facilities are primarily for the benefit of the individual cultivator-borrower rather than for that of the lending institution". The Commission endorses these recommendations.[1]

Other Difficulties Faced by Commercial Banks

9.41 Other difficulties reported by commercial banks were : (*i*) Most of the farmers do not keep a record of their cultivation expenses, sale proceeds and other income, and most of them are reluctant to disclose their financial position, which makes it difficult for the banks to work out their repaying capacity ; (*ii*) Farmers are found to be raising loans from more than one agency against the same security ; (*iii*) There is diversion of loans intended for agricultural operations for other purposes ; (*iv*) Banks experience delay in obtaining 'no dues' certificates from co-operatives, for the purpose of financing those who are members of the co-operatives ; and (*v*) In the absence of linking of credit with marketing, it is difficult to ensure recovery of loans through sale proceeds. Above all, the banks find it risky to make loans against hypothecation of crops in the absence of suitable crop insurance. We have made recommendations on these matters later on in this chapter and also in Chapter 11.[2]

RECOMMENDATIONS

(*a*) *Loan Policies*

9.42 In our view, the authority for laying down guidelines for policies to be pursued by all banks in the field of agricultural finance should be the same, *i.e.*, the Reserve Bank of India, as hitherto. We have recommended elsewhere in Chapter 10 the transfer of legislative power regarding co-operative credit from the State Government to the Union Government.

9.43 In the case of co-operative banks, there is need for greater flexibility in their loan policies than exists at present. This is particularly important on account of the flexibility that is available to commercial banks. Towards this end, we recommend that the policy making body at the State co-operative bank level should be sufficiently broad-based so as to include representatives

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[1] See also Chapter 11, paragraph 11·57.
[2] Paragraphs 11.53 to 11·61.

of agricultural departments in charge of extension work, a farm management specialist and a representative of the 'lead bank' in the area.

9.44 In so far as loaning policies are laid down by the Reserve Bank for co-operatives, we recommend that the Reserve Bank may take steps to encourage the policy making bodies of the State co-operative banks themselves to take decisions regarding details of policies (*e.g.*, purpose of loans, scales of finance, security to be obtained, seasonality of loan, etc.) subject to broad guidelines laid down by it as in the case of commercial banks.

9.45 As regards the loans granted to individual borrowers it is necessary to consider the purpose of the loan from the point of view of the improvement it can bring about in the productive efficiency of the borrowers and their income. In particular, diversification of farming is essential for improving the incomes and risk-bearing ability of the farmers. It is, therefore, necessary that the institutions at the primary level should be functionally equipped to provide credit facilities for all productive purposes to the farmers whether undertaken jointly with agriculture or independently, and whether they help production directly or indirectly. The primary units will also have to finance small scale and agro-industries like flour mills, oil crushing units, etc., for financing which there may be no separate institutions in the area.

9.46 We, therefore, recommend that the proposed rural banks as well as the recognised viable primary credit societies should be equipped to provide production loans for all purposes which help either directly or indirectly in improving the production capacity and income of the farmers. We further recommend that in the matter of eligibility of purpose for loans, as in other respects specified elsewhere in this chapter, a farmer borrowing from a co-operative should not be at a disadvantage as compared with a borrower from a commercial bank or its subsidiary rural bank.

9.47 The loaning system should provide for accepting as security those assets, real as well as financial, which farmers may acquire to improve their production and repaying capacity. We, therefore, recommend that the commercial banks, the rural banks and recognised primary credit societies should be equipped to re-orient their loaning system in this manner.

9.48 In reply to our questionnaire, banks and Governments have generally stated that they follow the methods recommended by the Reserve Bank in estimating repaying capacity. Some have suggested that the repaying capacity should be based on the market value of the produce. Many have recommended that non-agricultural incomes should be taken into account. Some have suggested that there should be a uniform formula both for commercial and co-operative banks for reckoning the repaying capacity.

9.49 The system of credit rating of borrowers on the basis of certain personal data has been developed in a number of countries. This is particularly useful when the loan is of a small size and, therefore, detailed credit

investigation is costly. It would be useful to find out whether such a system is applicable under Indian conditions and if so standardise the data to be collected and the method of working out the credit rating.

(*b*) *Supervised Credit and Guarantee Arrangements*

9.50 Farm guidance and supervised credit programmes are important factors in ensuring efficient use of credit. Farm guidance involves advising the farmer about the type of seeds, fertiliser and other types of arrangements needed so as to get the maximum yield from his land. Supervision of credit is needed to ensure that the loans advanced are utilised for the purpose for which they are advanced in the manner indicated by the Farm Guidance Experts. In many countries banks make arrangements to provide farm guidance. Under the conditions obtaining in India, where the number and the spread of small farms is very large, it would be quite costly for the banks to attempt this. Besides, there already exists an agricultural extension machinery at the Government level. In the Commission's opinion the best course would be to make use of this machinery through the co-ordination committees recommended later. Arrangements for credit supervision is the responsibility of banks and we recommend that there should be suitably co-ordinated supervised credit programmes.

9.51 Since the primary credit societies are too small to be in a position to appoint specialists for credit supervision, we recommend that the central/apex co-operative banks should appoint a suitable number of specialists and make their services available to the societies for undertaking supervised credit programmes as in the case of rural banks. We recommend that where necessary co-operative banks may be sanctioned suitable subsidies by the Government in the initial years.

9.52 However, it is unlikely that farm guidance and supervised credit programmes by themselves will encourage the lending institutions to undertake financing of weaker sections which are not in a position to provide any worthwhile or adequate security on a significant scale unless there is also a suitable guarantee system to cover the risk. The principle of guarantee has already been recognised by the authorities when they introduced the Credit Guarantee Scheme administered by the Industrial Finance Department of the Reserve Bank of India and later set up the Credit Guarantee Corporation for small loans.

9.53 In the co-operative system too, this has been recognised for several years now. The Government has been making contributions to the special bad debt reserves of co-operatives. It is some times argued that the co-operative system does not require a guarantee in view of the fact that the estimated bad and doubtful debts for the entire system are very low—less than Rs. 2 crores—as at the end of 1969-70 as compared with their special bad debt

reserves of Rs. 3.75 crores and loans outstanding of over Rs. 700 crores. This can be misleading because co-operatives do not generally undertake writing off bad debts unless overdue amounts have been outstanding generally for a period of 6 years. At the end of June 1970 those overdue for more than 3 years amounted to Rs. 36 crores. But it is important to note that most of the co-operative loans are well secured by either immovable property or personal sureties supported by charge on land ; loans given against sureties alone, are generally kept low in each individual case. This means that a large number of small and marginal farmers would be out of the purview of finance from the co-operatives. This is the main reason why guarantee arrangements are necessary for the co-operatives also.

9.54 We, therefore, recommend that the proposed rural banks and récognised viable primary credit societies should receive adequate guarantee support for undertaking financing of small and marginal farmers and other producers of similar categories in an integrated way. In view of the special factors affecting agricultural production it may be necessary to augment the resources of the Credit Guarantee Corporation by an adequate subsidy by the Government as otherwise, it is likely to mean a substantial burden on the borrowers. It may also be necessary for the Credit Guarantee Corporation, to suitably decentralise its work. But this should not present much difficulty, in view of the fact that the Reserve Bank of India has already opened branches of the Agricultural Credit Department in most of the States. These branches should be able to do the work of the Corporation in regard to loans to small farmers.

9.55 At present, the Credit Guarantee Corporation provides guarantee cover to commercial banks in respect of loans extended by them to certain classes of borrowers subject to specified limits. The object of setting up a Corporation will remain incomplete unless the scope of its guarantee cover is so widened as to extend its coverage to all institutions which give production credit to small farmers and other borrowers. Towards this end, even as the commercial banks are made eligible, the proposed rural banks and recognised primary credit societies and co-operative banks where they finance producers directly, should be made eligible for suitable guarantee cover.

(*c*) *Overdues*

9.56 Banks in different States have given different reasons for the increase in overdues. Broadly speaking, large scale failure of crops on account of floods, droughts, etc., are important only in those States/areas where these phenomena occur frequently. In most States, however, overdues are attributed to : (*a*) indifferent management or mismanagement of societies ; (*b*) unsound lending policies leading to overfinancing, or financing unrelated to actual needs, diversion of loans for other purposes ; (*c*) vested interests and group politics in societies and wilful defaults ; (*d*) lack of adequate

supervision over the use of loans by the borrowers and poor recovery effort; (*e*) lack of adequate control of banks over the primary societies ; (*f*) lack of appropriate link between credit and marketing institutions ; (*g*) failure to take prompt action against wilful defaulters; and (*h*) uncertain agricultural prices.

9.57 A number of suggestions have been made by the Governments and banks with a view to remedying these defective features.

(*i*) Management of societies should be motivated to take interest in the proper working of the societies :

Our recommendation in the previous chapter for the setting up of rural banks, and the direct interest which the co-operative bank and the parent commercial bank will take in their management can be expected to bring about improvements in this regard.

(*ii*) Improvement of the loaning system :

A good part of the overdues under the existing arrangements can be attributed to the traditional loaning system that has been in vogue for several years now. With the gradual implementation of a credit system adapted to individual needs, as recommended by us earlier, the intensity of the problem would be reduced. However, certain steps are necessary in the meantime. These are indicated below :—

(*i*) *Wilful Defaulters*

9.58 In the case of wilful defaulters, we recommend that the societies and rural banks where these are set up should take prompt legal action. We endorse the recommendations of the Review Committee that, wherever it has not already been done, the co-operative banks should be enabled to proceed directly against the borrowers where the societies have failed to take action. In the case of commercial banks, the legal impediments that stand in the way of their taking action against defaulters should be removed by the State Governments expeditiously.

(*ii*) *Extensions and Conversions*

9.59 The main problem of co-operative banks when crops fail in their areas arise on account of (*a*) delay on the part of the State authorities to declare the *annawari* shortfalls, *i.e.*, the proportion of the shortfall below the norm and (*b*) inadequate resources with the banks to absorb part of the overdues and convert them into medium-term loans according to the conditions stipulated by the Reserve Bank of India.

9.60 When the loaning system is rationalised on the lines indicated, it is unlikely that all loans will fall due on the same date. It is possible that due dates may be fixed for different borrowers on different dates. Similarly,

when the borrowers satisfy the primary institution regarding the purpose of the loan, their repaying capacity and security, it should be possible for the primary lending institution to defer repayment of loan by a suitable period in all cases of default for reasons beyond the control of the borrowers. In such cases, we recommend that upto a reasonable level of their resources, the institutions at the primary level should be allowed to grant extensions.

9.61 We also recommend that both central banks and the higher financing institutions including the Reserve Bank of India should treat such loans as current loans to the extent they are satisfied about the soundness of the purpose of the loans and the repaying capacity of the borrowers. The apex bank and the Reserve Bank may from time to time cause investigations to be made of such extensions granted by the primary institutions in order to make sure that the powers to sanction extension are not used injudiciously. We recommend, however, that this practice of granting extension should be confined to the proposed rural banks and recognised viable primary credit societies.

9.62 It also seems necessary to introduce a flexible system of making recoveries in those areas where (*a*) both the crops are not equally good or certain, (*b*) there are periodical crop failures. Essentially, the long-term solution to this problem lies in encouraging the farmers to undertake improvements on the farm and undertake supplementary non-farm activities so as to ensure steadily growing income. It seems possible to develop a system of loaning and recovery that will be appropriate to such areas. For instance, in areas where one of the crops is more important than the other, a major part of the loan extended for the whole year may be recovered from out of the crop that is more important and the remainder from out of harvest of the other crop or other incomes of the farmers. Similarly, in areas subjected to periodical droughts once every three or four years, it may be possible to so adapt the recovery system that the repayment of that part of the loan which remains unpaid during the lean years is spread over the two or three years during which good crops can be expected. We recommend that wherever co-operative and commercial banks have the resources, and have introduced the supervised credit system, recovery may be spread over periods of two to three years.

9.63 On the question of relaxation of the existing conditions for converting short-term loans into medium-term loans on account of wide-spread crop failure, we endorse the recommendations made by the All-India Rural Credit Review Committee. In particular, we should like to emphasise that the eligibility of co-operative banks for conversion facilities from the National Agricultural Credit (Stabilisation) Fund of the Reserve Bank should not be linked to the State Governments declaring *annawari* shortfall of less than 6 annas in 16 annas (*i.e.*, 37½ per cent) in the affected area. The decision

whether or not the crop failure in the area justifies conversion facilities should be left to the Committee headed by the senior most officer in charge of agricultural production in the State.

(*d*) *Sharing of Responsibilities by Co-operative and Commercial Banks*

9.64 In any given area there are at present two main institutional agencies providing agricultural finance, *viz.*, commercial banks and the co-operatives. However, in areas where the scheme of rural banks recommended by us is implemented, there will be, in addition to the commercial bank operating at the Taluka or Block level or at the important villages, either an independent co-operatively organised rural bank or a rural bank as a subsidiary of a commercial bank, which may eventually take the place of primary societies in the area. Considering that a rural bank is designed essentially to cater to the needs particularly of medium and small farmers as well as those sections which have been hitherto denied credit facilities, it goes without saying that all these types of farmers should be adequately served by the rural banks or the viable primary societies, unless they are directly served by commercial banks. If needs of individual farmers for credit exceed a specified level they should be financed by the nearest branch of a commercial bank and not by a rural bank or a primary agricultural credit society. There are many reasons why it should be so :

(*i*) Their incomes are larger and they command larger surplus resources than the others. In their case there is a definite need for their using a good part of their own resources for current operations and investment in farming. This can be ensured better by a commercial bank which can stipulate suitable margins in each case, depending on the estimated past savings and expected future income from farming operations. For this class of farmers, more than for any other, a uniform scale of finance would be most unsuitable. In most cases it might mean a very much larger quantum of credit than they actually need.

(*ii*) The quantum of credit needs of this class of farmers is likely to be much larger than those of the medium and small farmers. A commercial bank can make such resources available without much difficulty.

(*iii*) Credit discipline on the big farmers can be enforced more easily by the larger banks than by the rural banks or primary societies.

(*iv*) These farmers do not require and should not, therefore, be eligible for subsidized credit. They should be charged the usual rates of interest on loans. This differentiation can be made more easily by a bigger institution like a commercial bank than a primary unit.

(*v*) Because of the size of the farm and possibilities of introducing sophisticated techniques for intensive as well as diversified farming, they would

need technical help of a different type than that needed by an average farmer. The commercial banks would be in a better position to provide the technical help of the type and range needed by the big farmers. They need not be brought under the supervised credit programme which is necessary in the case of small farmers.

(*vi*) When the large and big farmers are asked to borrow directly from the commercial banks, their grip over the primary units would loosen; it would be possible to bring about suitable changes in the primary units to ensure that credit reaches all sections.

9.65 It is sound in principle and convenient in practice for both the lender and the borrower to have an arrangement under which as far as possible a borrower gets his entire credit needs satisfied by one single institutional agency. This should be encouraged to the maximum extent possible. Rural banks and recognised primary credit societies should be enabled to make long-term loans also as agents of the Land Development Bank. It would be useful to avoid 'splitting of security' among the lenders and enable the lending institution to have complete control over the assets offered by the borrower and help improve his production and income.

9.66 Where farmers have outstanding dues to any other institutional agency, the institution providing complete credit facilities may arrange to repay those dues and get the pledged security released in its favour, so as to have a better control over the assets of the borrower.

9.67 Where members of primary co-operatives are not in a position to obtain loans to the full extent of their needs on account of (*a*) inadequacy of resources with the society or (*b*) limitations of its maximum borrowing power, the society should enable the member concerned to raise the balance of requirements from a commercial bank or a rural bank sponsored by a commercial bank serving in the area. This can be done either by way of (*a*) entering into a participation arrangement with the commercial bank or rural bank or (*b*) by permitting the borrower in writing to approach the commercial bank for the balance of the loan.

Demarcation of Areas

9.68 Unless there are special circumstances like the commercial bank or co-operative bank adopting a group of villages for providing complete credit facilities and related services, demarcation of areas between commercial banks and co-operative banks does not appear to us as a practicable method of ensuring co-ordination between the two. Demarcation of areas can be justified when the two types of agencies operating in the respective areas are equally efficient both in mobilisation of resources as well as in making sound loans.

9.69 Demarcation does not take into account the preferences of borrowers. Borrowers' preferences stemming from a desire for a more efficient service, better technical advice, etc., are important factors in developing credit institutions into efficient units. Demarcation of areas rules out this possibility. It would also tend to force an efficient borrowing unit to go to an inefficient lending unit thus compulsorily slowing down the pace of growth in an area. This method of co-ordination is also unlikely to be fruitful so long as co-operative banks and commercial banks are subject to different legal provisions and follow different standards. If in an area a farmer gets loans according to scales of finance per acre subject to a ceiling and in an adjoining area another farmer gets to the extent of his total needs subject to no ceiling, demarcation of areas would lead to unjustifiable discrimination.

9.70 However, in areas where either commercial banks or co-operative banks launch their schemes of village adoption and seek to provide complete credit facilities for all the rural producers, other institutional agencies should not be allowed to operate.

Term Loans

9.71 In areas where there is scope for development loans, but co-operatives for various reasons have not been able to make development loans but are in a position to make adequate short-term loans, it would be preferable for commercial banks to confine their lending for development purposes by entering into suitable arrangements with the co-operatives. This could be done either (*i*) by the co-operatives lending against the hypothecation of crop and, if necessary, a second mortgage on the fixed assets like land, machinery, etc., while the commercial banks give term loans against the first mortgage on these assets or (*ii*) by the commercial banks providing the finance to the co-operatives to cover the loan for development purposes and the co-operatives handling all the requirements of the borrower themselves. In either case, there will have to be close co-ordination between the concerned co-operative and commercial banks to ensure that the total finance provided is adequate and is properly utilised.

Administrative Arrangements for Co-ordination

9.72 We are informed that for the purpose of promoting co-ordination between commercial and co-operative banks at the State and district levels, Committees have already been set up in some States either in terms of the recommendations of the All-India Rural Credit Review Committee, or earlier on the suggestion of the National Level Consultative Committee set up by the Agricultural Finance Corporation. However, during the course of the Commission's visits to the various States, it was found that many of them had not started functioning effectively. The Commission feels that it is very necessary to have a regular machinery at the district level in all the States which

will take a co-ordinated view of the credit problems of the various productive activities in a district. The Commission recommends the formation of a co-ordination committee at the district level with representatives of the lending agencies as members and the seniormost officer of the State Government in charge of development of the district as the Chairman.

Exchange of Information

9.73 One very important aspect of co-ordination is exchange of information between the co-operative and commercial banks. As far as the individual borrowers are concerned, the information is already being collected by the primary societies or branches of commercial banks and the problem is mainly of developing a system under which it would be possible to know within a short time whether or not the prospective borrower had dealings with any other institution in the area and the latest position of his outstanding dues. This will require some standardisation of the type of information to be collected and willingness on the part of the field level units of both the co-operative and the commercial banks to exchange such information readily. Since the number of borrowers in the area of operation of these units is rather large, the standardisation has to be such as to keep the details to the bare minimum as otherwise the costs would increase considerably. Another aspect on which exchange of information would be useful is information regarding crop prospects, availability and prices of the different agricultural inputs and so on. It will be one of the main functions of the district level co-ordination committees recommended in the previous paragraph to look into all such practical aspects of field level co-ordination and evolve suitable procedures to keep all the agencies lending to rural producers in a district properly informed.

CHAPTER 10

CO-ORDINATION BETWEEN COMMERCIAL AND CO-OPERATIVE BANKS III: RESOURCES AND CERTAIN ORGANISATIONAL ASPECTS OF CO-OPERATIVE BANKS

INTRODUCTION

10.1 The resources of co-operative banks fall into three main categories: (*a*) share capital and reserves, (*b*) deposits and (*c*) borrowings. We shall first discuss the problems and difficulties of co-operative banks in the sphere of deposit mobilisation and the possible lines on which these could be overcome and co-operatives may be enabled to raise larger resources. In the next section, the manner in which share capital and reserves have been built up and utilised in the co-operative banking system have been discussed. The third section examines the present position of borrowings of co-operative banks and proposals for improving (*a*) the ability of the co-operative banks to raise adequate resources and (*b*) the availability of funds to co-operative banks. Certain problems of urban and industrial co-operative banks have also been covered in the last section.

DEPOSITS

10.2 A feature of the co-operative credit system is that while for attracting deposits it is not as well equipped as the commercial banking system, it is also not in a position to borrow from the Reserve Bank beyond a specified limit. Thus, for the 17 major States, the net deposits (Table 10.1) at Rs. 517.75 crores at the end of June 1970 collected by the apex and central co-operative banks amounted to three times their net owned funds,[1] consisting of paid-up capital and reserve funds, and borrowings from the Reserve Bank amounted to about one and a half times the owned funds as on June 30, 1970. For the country as a whole, deposits at the apex bank level accounted for 37.8 per cent of the working capital and borrowings accounted for 48.8 per cent as on June 30,1970. At the central bank level, deposits at 41 per cent of working capital were slightly higher by 1 per cent than borrowings.

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1 Net owned funds at the apex and Central Bank level.

TABLE 10·1—DEPOSITS OF STATE AND CENTRAL CO-OPERATIVE BANKS STATE-WISE)

(Rs. in lakhs)

Name of the State	1968-69		1969-70	
	Total deposits of State and central co-op. banks	Net deposits* of State and central co-op. banks	Total deposits of State and central co-op. banks	Net deposits* of State and central co-op.banks
Andhra Pradesh	2432	2014	2752	2294
Assam	1244	1191	1365	1317
Bihar	1096	955	1179	1007
Gujarat	8095	6273	9318	7221
Haryana	871	708	1196	1054
Himachal Pradesh	367	286	435	339
Jammu & Kashmir	166	107	193	138
Kerala	1495	1188	1805	1481
Madhya Pradesh	2774	2418	3224	2766
Maharashtra	17859	15723	18643	16503
Mysore	3460	2940	3974	3409
Orissa	1099	985	1101	947
Punjab	3799	2612	3813	2891
Rajasthan	789	560	944	694
Tamil Nadu	3731	3561	4123	3814
Uttar Pradesh	5422	4533	5327	4535
West Bengal	1446	1235	1655	1365
Total	**56145**	**47289**	**61047**	**51775**

* Net Deposits—Total deposits of State and central co-operative banks *less* bank balances, call deposits and fixed deposits of central co-operative banks with apex bank.
Source ; Statistical Statements Relating to the Co-operative Movement in India.

10.3 The position of urban co-operative banks numbering 1,129 on June 30, 1970 is much different. Their deposits of Rs. 140.63 crores formed 76.4 per cent and borrowings 5.2 per cent of the total working capital. Their time deposits accounted for 47.6 per cent of the total deposits. Four States (Gujarat, Mysore, Maharashtra and Tamil Nadu) alone accounted for 86.7 per cent of their deposits.

10.4 There were three State industrial co-operative banks (*i.e.*, Mysore, Rajasthan and Tamil Nadu) in the country, whose total deposits amounted

to Rs. 0.98 crore forming 19.7 per cent of their working capital as at the end of June 1970. Their borrowings constituted 42.1 per cent of their working capital. The total deposits of 24 district industrial co-operative banks (of which 20 were located in Mysore State alone), stood at Rs. 3.89 crores, which formed 37.6 per cent of the working capital. Their borrowings constituted 41.5 per cent of their working capital, as on the same date.

10.5 In the three-tier co-operative credit structure deposit collection is confined mainly to the district and apex co-operative banks while primary societies act, in the main, as agencies for providing credit.

10.6 Another feature of the deposit position at the apex bank level is that five of them, *viz.*, Maharashtra, Gujarat, Punjab, Uttar Pradesh and Tamil Nadu, accounted for 65 per cent of the total deposits of all the State co-operative banks in 1969-70. It is significant that the deposits kept by the member co-operatives accounted for a major part of apex banks' deposits. For instance, for all the apex banks together, member-institutions' deposits accounted for 71 per cent of their total deposits (Table 10.2).

Types of Deposits

10.7 Tables 10.2 and 10.3 show the State-wise position of different types of deposits at the apex and central bank levels. During the year 1960-61, the current and fixed deposits were significant at the apex level forming 34 per cent each. However, by the end of 1969-70, the proportion of current deposits declined to 24 per cent and that of fixed deposits rose to 61 per cent. The current deposits were more than 40 per cent but less than 50 per cent of the total deposits in seven States. The savings deposits exceeded 30 per cent only in 6 apex banks.

Central Co-operative Banks

10.8 At the district level, where deposit mobilisation is more important, the banks in Gujarat and Maharashtra generally and a few in the Punjab and Tamil Nadu have shown better performance than the others. Of the increase of Rs. 50 crores witnessed in 1968-69, the banks in Maharashtra and Gujarat and the Punjab alone accounted for Rs. 33 crores.

10.9 The proportion of the societies' deposits with central banks at the end of 1969-70, particularly current deposits representing largely the loans granted to them was more than 55 per cent of the total in six States as compared with 40 per cent for the country. However, the proportion of deposits of individuals and others was high and ranged from 60 to 85 per cent in the case of central banks of Gujarat, Haryana, Jammu & Kashmir, Maharashtra, Punjab, Rajasthan, Uttar Pradesh and West Bengal.

TABLE 10·2—STATE CO-OPERATIVE BANKS

(Figures in percentages)

Name of the State	Type of deposits								Ownership of deposits			
	Current		Savings		Fixed		Others		Co-op. Societies		Individuals & Others	
	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Andhra Pradesh	25	16	6	3	48	66	21	15	70	86	30	14
2. Assam	60	32	27	37	10	30	3	1	21	16	79	84
3. Bihar	42	33	24	16	14	43	20	8	71	54	29	46
4. Gujarat	13	8	0·4	0·3	45	83	42	9	80	94	20	6
5. Haryana	—	50	—	4	—	43	—	3	—	38	—	62
6. Himachal Pradesh	—	27	—	40	—	29	—	4	—	22	—	78
7. Jammu and Kashmir	84	48	9	6	6	43	1	3	40	87	60	13
8. Kerala	15	47	4	2	51	42	30	9	86	82	14	18
9. Madhya Pradesh	61	41	14	8	11	40	14	11	67	58	33	42
10. Maharashtra.	27	26	8	9	33	62	32	3	62	75	38	25
11. Mysore	46	12	0·4	4	28	68	26	16	97	92	3	8
12. Nagaland	—	48	—	28	—	24	—	—	—	12	—	88
13. Orissa	39	14	3	4	43	66	15	16	56	82	44	18
14. Punjab	88	45	1	1	9	50	2	4	88	77	12	23
15. Rajasthan	18	13	1	3	14	59	67	25	79	74	21	26
16. Tamil Nadu	31	17	6	7	52	66	11	10	40	53	60	47
17. Uttar Pradesh	37	17	10	10	52	72	1	1	60	62	40	38
18. West Bengal	33	20	9	9	16	63	42	8	53	85	47	15
19. Union Territories	33	20	21	27	39	48	7	5	37	57	63	43
All India	**34**	**24**	**9**	**9**	**34**	**61**	**23**	**6**	**61**	**71**	**39**	**29**

Source : Statistical Statements Relating to the Co-operative Movement in India.

TABLE 10·3—CENTRAL CO-OPERATIVE BANKS

(Figures in percentages)

Name of the State	Type of deposits								Ownership of deposits			
	Current		Savings		Fixed		Others		Co-op. Societies		Individuals & Others	
	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70	1960-61	1969-70
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Andhra Pradesh	27	17	8	9	45	41	20	33	46	59	54	41
2. Assam	22	7	33	68	12	9	33	16	75	76	25	24
3. Bihar	33	28	62	53	3	12	2	7	85	66	15	34
4. Gujarat	28	21	29	30	38	48	5	1	42	39	58	61
5. Haryana	—	23	—	42	—	33	—	2	—	17	—	83
6. Himachal Pradesh	—	9	—	45	—	43	—	3	—	43	—	57
7. Jammu and Kashmir ..	69	36	16	34	3	22	12	8	61	30	39	70
8. Kerala	34	14	11	19	27	44	28	23	55	42	45	58
9. Madhya Pradesh	25	12	46	47	20	23	9	18	29	43	71	57
10. Maharashtra	28	29	40	38	27	28	5	5	35	33	65	67
11. Mysore	30	22	18	25	41	37	11	16	50	56	50	44
12. Orissa	22	13	27	38	42	33	9	16	45	55	55	45
13. Punjab	24	20	43	50	29	30	4	—	19	26	81	74
14. Rajasthan	24	20	44	43	23	31	9	6	53	40	47	60
15. Tamil Nadu	21	17	3	8	47	49	29	26	55	59	45	41
16. Uttar Pradesh	43	19	14	47	39	31	4	3	41	34	59	66
17. West Bengal	35	13	38	59	19	21	8	7	19	24	81	76
All India	**28**	**21**	**28**	**34**	**33**	**35**	**11**	**10**	**40**	**40**	**60**	**60**

Source : Statistical Statements Relating to the Co-operative Movement in India.

10.10 There is also evidence that the current deposits of central banks have been on the decline. At the end of 1969-70, the current deposits of central banks formed 21 per cent of the total deposits for all the central banks as against 28 per cent in 1960-61.

Performance in Deposit Mobilisation

10.11 Available evidence shows that as in branch expansion (see Chapter 8), in respect of deposit mobilisation also, it is only in a few States that the central banks' performance could be considered to be satisfactory. Thus, 8 central banks in Maharashtra and 5 in Gujarat together accounted for 25 per cent of the total deposits of all central co-operative banks in the country. As few as 40 banks, mostly from Maharashtra and Gujarat and a few each from Mysore, Punjab, Tamil Nadu, Kerala and Andhra Pradesh accounted for about 45 per cent of the total deposits of all the 340 central banks in 1969-70. As many as 168 central banks each of which generally covers a whole district, have deposits of less than Rs. 50 lakhs each, a good part of which is accounted for by those kept by the member co-operative institutions.

10.12 After a review in depth of the performance of co-operative banks in this regard the All-India Rural Credit Review Committee came to the conclusion that :

> "the performance in terms of the deposits mobilized is not impressive in many banks despite the growth of deposit potential which is related to increased agricultural production and reflected in the deposits of commercial banks. Nor has there been much evidence of the involvement of the leadership of central banks in a drive for deposits".[1]

Deposits of Individuals

10.13 The performance of apex and central banks in mobilising deposits in their respective areas may be judged from the extent of the increase in the individuals' deposits with them in the recent past. During 1963-64 to 1968-69, it was observed that in almost all the reporting apex banks in the more developed States there was a decline in the proportion of individuals' deposits to the total deposits. In the case of a number of reporting central banks there were either no increases or only marginal increases in individuals' deposits despite the fact that they were operating in prosperous areas.

Banking Facilities

10.14 Available information shows that co-operative banks in many States have generally not made much headway in providing other banking

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1 *Report of the All-India Rural Credit Review Committee*, Reserve Bank of India, 1969, p. 183.

services comparable to those provided by their counterparts in Gujarat and Maharashtra and the commercial banks. This seems to be on account of confining their dealings mainly to member-societies and their inability to provide a wide range of banking services to the public, for various reasons including lack of trained personnel and legal restrictions.

10.15 If the income earned by co-operative banks by way of commission, brokerage, etc., provides an index of the range and volume of ancillary banking services provided by them to their clients, it shows that their performance has been generally poor, barring a few exceptions. It is observed that for most of the apex banks income by way of commission, etc., in 1968-69 was less than 0.50 per cent of their total income. Only in a few cases it exceeded 0.50 per cent but was less than 1 per cent. As against this, income by way of commission, brokerage, etc., of the Indian scheduled banks worked out to 13.73 per cent of their total income in 1969.

Views of Banks

10.16 It is observed from the replies to our questionnaire that where co-operative banks have shown success in attracting deposits, it has been attributed to (*a*) sound financial position combined with equally sound management and efficient working, (*b*) vigorous branch expansion, (*c*) attractive rates of interest, (*d*) influential leadership, (*e*) provision of banking services comparable to those of commercial bank, (*f*) progressive and productive loaning policies combined with low overdues, (*g*) availability of properly oriented staff and encouragement given to staff to mobilise deposits. In some States like Maharashtra, it is attributed, among other things, to branch extension into rural areas and the support extended by local bodies, panchayats, municipalities, etc., to co-operative banks. The success of co-operative organisations in other spheres such as co-operatively organised industries also helped improve the business and image of co-operative banks.

10.17 Among the reasons cited for the failure of banks to attract deposits are (*i*) lack of offices in potential centres, (*ii*) lack of interest on the part of management in the working of the banks, (*iii*) poor management and low efficiency, (*iv*) poor quality loaning and heavy overdues, (*v*) inferior status (*i.e.*, lack of 'scheduled status'), (*vi*) lack of facilities for discounting cheques and providing general banking services, (*vii*) inconvenient location of offices, lack of suitable buildings, (*viii*) the deposit insurance scheme not being extended to them and (*ix*) identification of the bank with a political party or group. While many Governments and some banks have denied that the liberal concessional refinance facilities from the Reserve Bank had anything to do with their failure in deposit mobilisation, others have conceded that such facilities may have made them indifferent or inactive.

10.18 The All-India Rural Credit Review Committee suggested, *inter-alia*, that the State Governments should extend more positive assistance

to co-operative banks, particularly by enabling local bodies and similar institutions to deposit their surplus funds with the banks and by amending the laws to extend deposit insurance to co-operative banks ; that co-operative banks should improve their image before the public by improving their operations and financial soundness and by providing banking services needed by the local people ; that they should appoint well-qualified and trained staff for the purpose and that State co-operative banks should take the responsibility for training a cadre of branch managers.

10.19 It also suggested that the Reserve Bank of India might link the rate of interest charged on its loans to co-operative banks to deposit mobilisation efforts put in by them. It further suggested that the existing rebate in the interest rate itself may be reduced from 2 per cent to 1½ per cent and that the interest rebate allowed to co-operative banks should be slightly more in the case of banks which have shown progress in mobilising deposits and should be correspondingly less in the case of those which have not.

Factors Affecting Deposit Mobilisation

10.20 The factors which affect the deposit mobilisation efforts of co-operative banks are, broadly :

(*a*) Natural factors of the economy of the area ;

(*b*) Organisational constraints within the co-operative system itself; and

(*c*) Those which are attributable to the State Governments' jurisdiction over co-operatives.

(*a*) *Natural Factors*

10.21 One of the major sources of difficulties for a number of central co-operative banks is the limitation on their area of operation to the boundaries of a district. This means that those banks which have to operate in economically poor areas because of inadequacy of irrigation facilities and failure of crops and droughts, are handicapped for no fault of theirs ; while others operate in agriculturally prosperous areas and are, therefore, in a better position. This is in contrast to the branches of the much more powerful commercial banking system which does not suffer from such limitations.

(*b*) *Organisational Constraints*

10.22 Another source of difficulty for the co-operative banks is that the three-tier structure as it functions now does not represent in all cases the joint effort of all the constituents within the structure to attain certain given goals. Thus, the image that a central co-operative bank projects before the public in its area is its own, and not that of the structure as a whole or that of the

apex bank. The branches of a commercial bank operating in the same area as a central co-operative bank have no such problems. The significance of this is best illustrated by the fact that the responsibility for deposit mobilisation is left entirely to the central bank in the district and the apex bank does not normally come into the picture even where the central bank has failed to mobilise available local savings.

10.23 Organisationally the apex and the district units are so constituted that the leadership (non-official as well as professional) of high calibre and managerial competence, to the extent available at the apex level, or to some of the individual central banks in a State, are of no avail to the central banks which lag far behind. Thus, while all districts in a State may have been covered by central banks, a situation has arisen in which, within a State, the services available to the people in a district from a central co-operative bank are good or bad depending on the competence and financial strength of and the quality of leadership available to the central co-operative bank concerned and not so much on the financial position and the leadership at the apex bank level. It is doubtful whether under the existing arrangements many of the apex banks take constructive interest in the working of the weak central banks. Had this been so, the number of central banks requiring rehabilitation would not have been as large as it is.

10.24 The 'scheduled' status that most apex banks enjoy is not available to their member banks, *i.e.*, the district central banks, even though they are part of the three-tier co-operative banking structure in each State and have been mainly intended to collect deposits for the entire system in competition with commercial banks. As a consequence, the central banks get an 'inferior' status in the eyes of the public and the other institutional investors, as compared with commercial banks.

(*i*) *Size*

10.25 Size is another factor which affects the performance of co-operative banks *vis-a-vis* commercial banks. The small size and consequent small volume of business, low profitability and poor management make it difficult for the co-operatives to effectively compete with commercial banks. Owing to the fact that their dealings are mainly confined to members, the range of services provided by them is limited. On account of the organisational link with the apex banks, they cannot become direct members of the Clearing House. Whatever advantages they may have by virtue of their small size are often more than offset by the disadvantages.

10.26 The requirement (under the discipline of the three-tier structure) that all the co-operative banks in the State should put their surplus funds with the apex co-operative bank without a corresponding obligation on the part of the apex bank to satisfy their entire credit needs puts the affiliated co-operative banks in a somewhat disadvantageous position. This requirement

concentrates too much power and resources in the hands of the apex bank. To what extent the surplus funds available are used to develop loan business or to improve the position of weaker banks by adopting towards them a constructive approach, is difficult to judge.

(*ii*) *Maximum Borrowing Power*

10.27 Yet another special feature of the co-operative system is the principle of a ceiling on their borrowings (including deposits), which is fixed as a multiple of a bank's owned funds, *i.e.*, paid-up capital and reserve fund. The basic idea behind such a requirement is that the bank should possess an inherent financial strength which is commensurate with the size of business it handles. Similar requirements exist in the case of commercial banks in some other countries and many financial institutions in India, but not in the case of the Indian commercial banks.

10.28 In the case of most co-operative banks, the maximum borrowing power requirement is of limited practical use, as we shall show later. If the business of a bank is conducted on sound lines, it experiences a rapid rate of growth. At such times the maximum borrowing power requirement becomes a hindrance rather than a help. This fact has been recognised by those countries which have prescribed such a requirement for the commercial banking system. In our country there are of course only a handful of co-operative banks which have experienced such a rapid growth rate. But when they did experience such a growth—particularly in the case of some urban banks—they have also been faced with the problem of having to obtain exemptions from the requirements. Where the bank is not doing well a high ratio of owned funds to deposits does not impress the public and when the bank is expanding fast the requirement becomes a needless obstacle.

10.29 The various constraints on co-operative banks have a cumulative effect on their competitive strength. Organizationally, considerations of effective functioning of the structure in each State point to district banks being linked more closely with the apex bank as well as with other district banks in the State. If the restrictions on dealing with non-members are done away with and the services of these banks are diversified, they would be in a position to attract much larger clientele as well as deposits, which in turn, would call for dispensing with maximum borrowing power.

(*c*) *Effect of the State Government's Jurisdiction*

(*i*) *Administrative Problems*

10.30 The fact that under the Constitution, 'co-operation' is a State subject seems to have adversely affected healthy growth of these institutions in several States. Even useful reforms are delayed considerably because this depends very much on the administrative convenience of the State Governments. The slow pace at which a large number of State Governments have

been moving in the matter of amending the co-operative laws to facilitate the Deposit Insurance Scheme being extended to co-operative banks is an example. The measure of interest evinced and the standards of control enforced by the States vary considerably as between the different States. Available evidence shows that all the State Governments did not act with the same amount of vigour in the matter of helping co-operative banks to open branches in rural areas. Similarly, the slow pace at which different States acted on the question of reorganisation of primary agricultural credit societies into economically viable units during the past 15 years proves that the urgency felt at the national level in the matter of correcting defective features in the institutional credit was not shared by certain States. It appears that with the multifarious burdens on their administrative machinery and financial resources, the State Governments are generally not in a position to give the kind of attention that is needed for the proper development of co-operative banks. It also appears that it has not always been adequately realised that where the constituent primary units are neglected or prevented from growing into strong institutions, the path to the development of the central banks into effective instruments of deposit mobilisation and credit is also blocked.

10.31 The development of the loan business of a co-operative bank depends not only on its share capital base but also on its ability to raise resources by way of deposits and borrowings, which, in turn, depends on the effectiveness of loaning and recovery. Several State Governments have been slow in making co-operative banks eligible for deposits of local bodies and in taking measures to enable them to have effective control over loaning. For instance, in some States, the supervision over the affiliated societies continues to be either directly or indirectly, fully or partially with the State Co-operative Department, though some of the Governments have agreed in principle to transfer the functions to central banks. As a result, the financing banks in those States have to depend on the Departmental staff to effect recoveries—an arrangement which considerably undermines their control over their own operations.

(*ii*) *Financial Difficulties*

10.32 On account of the State Governments' responsibility towards the banks, they had to find resources to strengthen their share capital, to rehabilitate the weak banks and to provide subsidies for branch expansion. Not infrequently, the States find it difficult to make adequate budgetary provisions for the purpose. This tends to slow down the pace of progress. Considering the financial difficulties in which most States find themselves, it is highly problematical whether they would be able to undertake a financial burden of the order required to place co-operative banking on a sound footing. Indeed, the question may well be asked whether it is right and proper to ask the State Governments to bear the burden. The co-operative form of organization does not by itself require that financial soundness and efficient

working of a co-operative bank should be made to depend on the ability of a State Government to bear burdens of this type.

(*iii*) *Management*

10.33 Even a more important area of the State Registrar's jurisdiction is management. It is the quality and character of management of the institutions that is reflected in all aspects of its working. Judging from the poor progress in branch expansion and deposit mobilisation and the growing volume of overdues even in areas where there were no widespread crop failures, one doubts whether this important lever of control over co-operatives has been used effectively by the States in all cases.

(*iv*) *Control*

10.34 Under the existing laws and arrangements control over co-operative banks is divided among three different authorities. First, the Registrar of Co-operative Societies not only audits but inspects the banks under the provisions of the relevant Co-operative Societies Act. The Reserve Bank of India undertakes inspections in terms of the statutory power vested in it under the Banking Regulation Act, 1949. In addition, the co-operative apex banks also inspect the co-operative central banks. Thus most co-operative banks have only brief spells of time between inspections for removing the defective features pointed out in inspections. It seems pointless to subject the co-operative banks to such divided system of control and multiplicity of inspections. Matters relating to management, borrowings, loans, costs and profitability, control over which is essential for ensuring the attainment of the objectives of banking continue to be outside the purview of the central banking authority under the existing system of divided control. As a result, the Reserve Bank has to operate mainly through the Registrar of Co-operative Societies for bringing about improvement in the banks. Past experience shows that on the whole this is neither a happy arrangement for the Reserve Bank nor a healthy arrangement for co-operative banks. All these matters should come under the effective control of the central banking authority which has the requisite technical competence, if a sound development of co-operative banking system is to be ensured in an environment where commercial banks will be made increasingly effective in the rural sector. In this way the cost of controlling the system as a whole can also be reduced.

10.35 The improvement of the management structure of co-operative banks has to be looked upon as the responsibility of the same organisation as the one which bears the responsibility for the improvement of management of banking organisations.

10.36 Banking is a highly specialised business. Its development, regulation and control are better taken care of by those who have close day-to-day contacts with banks and therefore know the areas in which improvement

is required and the manner in which such improvement can be brought about. The expertise that is necessary for properly directing and controlling the banks is unlikely to be available with most State Governments. Nor is it necessary that they have it. In the overall context such expertise is best developed at the all-India level and its benefits made available to the various units in the banking system in a uniform manner. The strength and vigour displayed by commercial banks is due in no small measure to the fact that the responsibility for their control and development was unified in one institution, *viz.*, the Reserve Bank.

10.37 The technological advance possible in agriculture as a result of new varieties of seeds, larger availability of fertilisers and other inputs requires an increasing volume of credit to be made available to agriculture if it is to make full use of these opportunities. Also increasing incomes in agriculture will result in increasing other economic activities in the rural areas.

10.38 For efficient arrangements to supply credit for all these activities it is essential that the regulation and development of the whole of the banking system of which the co-operative banks form an important part, should be in the same hands as those which frame the credit policy. There has to be uniformity of laws and regulations relating to the commercial and co-operative banking system in these matters. The arrangements for recruitment and training of the personnel in the banking system have to conform to appropriate standards. Taking into account all these considerations, the Commission feels that it is essential to place the co-operative credit institutions under the same authority under which the commercial banks work. The recommendations in this regard have been made in Chapter 19 (paragraph 19.48).

Share Capital and Reserves

10.39 Three important questions have received our attention in connection with our examination of the adequacy of owned resources of co-operative banks. These are : (*a*) to what extent the available share capital resources are put to the best use by the system ; (*b*) to what extent the augmentation of share capital in the past has helped to develop the strength of the entire credit system in each State to undertake greater responsibilities in the sphere of loaning ; and (*c*) whether the existing policies and norms for strengthening share capital and reserves in the system require any modification in order to improve its competitive position and effectiveness *vis-a-vis* the commercial banks.

10.40 As at the end of 1969-70, the paid-up share capital held by individual members at the primary level reached an impressive figure of Rs. 189 crores (of which Government contribution amounted to Rs. 15 crores). Nearly a decade earlier, *i.e.*, in 1960-61 it amounted to only Rs. 58 crores

(of which Government contribution was Rs. 6 crores). This increase was accounted for partly by increase in the membership and partly by the same members contributing larger amount of share capital.

10.41 In pursuance of the policies that came to be adopted in most States following the recommendations of various Committees[1], upto 50 per cent of the share capital collected by primary societies is being invested in the shares of the central bank to which they are affiliated and the latter, similarly, invest 50 per cent of share capital thus received in the shares of the relative apex banks. Their share capital resources are also strengthened from time to time by Government contribution in order to improve their borrowing capacity. Thus, the 340 central co-operative banks had paid-up share capital of Rs. 128 crores as at the end of June 1970 of which Rs. 33 crores were contributed by State Governments. The 25 State co-operative banks (*i.e.*, including those in the Union Territories) had paid-up share capital aggregating Rs. 40 crores of which Rs. 28 crores were held by member institutions including central co-operative banks, the remainder being accounted for by State Governments.

10.42 One result of the relatively large capital base is the very low rate of dividend that both apex and central banks have been able to pay. The dividend paid by the 17 State co-operative banks, for the year 1969-70 amounted to 3.73 per cent of paid-up share capital, which is the highest for the past five years, the lowest being 2.32 per cent in 1967-68. The higher rate of dividend, *viz.*, 5 per cent or slightly more than 5 per cent was paid by those States which have made better use of their 'borrowing power'. These are Gujarat, Maharashtra and Mysore. At the central bank level, the average dividend paid in 1969-70 worked out to 1.95 per cent for all the central banks in 17 major States, the highest being 5.03 per cent in the case of Gujarat. In two States, no dividend was reported. In 1966-67, when the average worked out to 2.04 per cent, the highest dividend paid was at the rate of 4.43 per cent in the case of Gujarat.

10.43 To the extent that the primary institutions do not receive adequate dividend on their share holdings in central banks, there are low returns on the members' share holdings in the societies. A good part of members' share capital at the primary level being deductions from loans advanced to them, a low return on their share capital amounts in effect to charging a much higher rate of interest on their loans.

Policy Relating to Share Capital Contribution

10.44 Accumulation of paid-up share capital at a rapid rate has been stressed by various Committees.[2] The Rural Credit Survey recommended

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[1] *e.g.* All India Rural Credit Survey, Reserve Bank of India (1954), Committee on Co-operative Credit, Government of India, (1960).

[2] All-India Rural Credit Survey (1954), pp. 333, 376, 430 and 431. Report of the Committee on Co-operative Credit, Government of India, (1960), p. 112, 122.

substantial Government share capital participation in the reorganised large-sized societies to match compulsory contributions from members. At the higher levels of the structure, the Committee visualised major share capital participation by the Government "in order that a powerful helping hand may be held out, capable of guarding the primary structure against dangers and weaknesses inherent in the present functions of the system as a whole."[1]

10.45 At the different levels of the structure, share capital contribution is considered necessary (*a*) to provide adequate borrowing power to the institutions, (*b*) to provide for cushion against overdues, (*c*) to enable the primary societies to undertake non-credit business, and (*d*) to enable them to start advancing medium-term loans.

Members' Capital

10.46 At the primary level, the prescribed ratio of members' share-holding to borrowings which used to be 1 : 10 has been raised to 1 : 5 when the Action Programme[2] was introduced in 1964. In most areas, this has come into force. However, the required amount of share capital is being collected in the case of small farmers in two or three instalments. When the level of share-holding of the members has reached the ratio of 1 : 5 in relation to borrowings, further contributions are required to be made by members at 5 per cent of their loans through compulsory thrift deposits.

10.47 There is no doubt that without the capital base of the dimensions that has now been built up over a period of years, the co-operative credit structure would have been in a more difficult condition in the matter of absorbing overdues in most States than it is to-day. At the same time, there is also a view that larger capital additions on account of substantial member-contributions and the sizeable Government participation may have led to certain degree of laxity in effecting prompt recovery of loans from borrowers.

10.48 Additions to share capital in most cases have resulted in central co-operative banks acquiring much larger borrowing capacity. Indeed, if maximum borrowing limits are altogether removed, as suggested earlier, the borrowing capacity would be limited only by the ability of institutions to manage funds. But it is doubtful whether it has resulted in a corresponding increase in deposits or business. This is so because the co-operative banks both at the central and apex levels are required to raise resources either by way of deposits — for which they are not uniformly well-equipped in all cases as already discussed — or from the Reserve Bank, which is not expected to provide funds to the full extent of their borrowing power.

[1] *Op. cit.* p. 322.

[2] The various measures suggested by the Committee on Co-operative Credit (1960) for bringing about progressive orientation of credit to production needs were spelt out in the Action Programme drawn up in 1963 by the Government of India. This Programme outlined, among other things, the main features of the crop loan system, linking of shareholding to borrowings, etc.

10.49 Thus the policy regarding owned funds of co-operative banks is based partly on the principle of maximum borrowing power being a definite multiple of the owned funds and partly on the principle of increasing such funds for the purpose of absorbing overdues. For the co-operative credit agencies, the share capital base has become rather large in relation to the volume of business resulting in a low rate of return to the individual shareholder. On the other hand, for the individual members, this has resulted in a good part of the share capital being collected from them as compulsory deduction from loans. From the point of view of the shareholder, it is more advantageous if the co-operative concentrates on deposit mobilisation rather than on raising more share capital. A better way would be to relate amount of owned funds to such factors as (*i*) the fixed capital requirements of the credit agency ; (*ii*) bad and doubtful debts ; and (*iii*) quality of other loans and not to link it up with considerations of maximum borrowing power. The Commission recommends that the Reserve Bank should review the policy in this light and revise the requirements for share capital contribution by members of the co-operative credit agencies.

Measures to Strengthen the Co-operative Credit Structure

10.50 We have discussed in an earlier chapter why several central co-operative banks by themselves are not in a position to undertake branch expansion in a significant way in many States. Individually many of them are unlikely to be in a position to exploit to the full extent the potential created by a large capital base for expanding their loan business. Besides, there are in each State, some central banks with relatively low reserve borrowing power while there are others — a majority — with large reserve borrowing power.

10.51 One way of making the best use of the available capital base in the system seems to be to fix a combined maximum borrowing power for all the central banks in a State. To this, most State Governments and banks reacted unfavourably. They pointed out that responsibility for weaker units would fall on the bigger ones.

10.52 The idea of forming one co-operative bank for each State by converting the central banks into branches of apex bank has been favoured by some State Governments and apex co-operative banks. Apart from this, quite a few Governments and apex and central co-operative banks felt that the best way of improving the structure where central banks are weak would be to convert them into branches of respective State co-operative banks. By so abolishing the intermediate tier, it is argued, it would be possible to make better use of the capital base in the system and also to ensure better coverage of rural areas by extending branches which has not been possible hitherto on account of the district units being weak.

10.53 A solution seems to lie in so reorganising the co-operative banking structure in each of those States where it is generally weak to-day that the entire capital base of the apex and central banks forms the basis for raising the maximum amount of resources from the public, the Reserve Bank, etc. This would facilitate all the districts within a State — and individual members in different districts — receiving credit in proportion to their needs rather than in proportion to the ability of the individual central co-operative banks to raise resources, as has been the case now.

10.54 This is what would happen if the district co-operative banks together with the apex bank form into one unit. There will then be one co-operative bank covering all the districts with its branches and financing the primary level institutions whether they are rural banks or viable primary agricultural credit societies. Moreover, the reorganised bank in the State would be in a position to raise resources more effectively by way of deposits and also by way of borrowings from the Reserve Bank because of the better management and increased efficiency that such a reorganisation can bring about than the individual central banks are in a position to do. At the same time, it has to be recognised that there are quite a number of central banks which are well managed and have done a good job of mobilising deposits, providing credit to agriculture and generally developing the banking habit in their area of operation. Although they can impart strength to the apex bank if they are converted into its branches, there is no particular reason why such a step should be taken. Rather they should be encouraged in the work they are doing. At present in certain cases the apex bank itself has opened branches in the district to finance societies directly. This method may be continued wherever possible, particularly in cases where the weakness of the co-operative structure is confined to small pockets in a State.

10.55 We have already outlined the problems faced by central co-operative banks in districts which have poor agricultural potential because of natural factors. Such central banks are likely to remain under a handicap for reasons beyond their control unless the economy of such districts is improved through programmes of development which help to establish in these areas productive activities other than agriculture. Apart from districts of this type, weaknesses have developed for one reason or another in central banks in a number of other districts also. Whatever the reason, weak central banks are unlikely to be useful instruments of credit policy. The Commission, therefore, recommends that wherever such banks exist, the co-operative structure should be reorganised. In the Commission's view, this can be done in the following manner : (*i*) in those States where all the district central banks are weak it will be better to reorganise the structure so as to have only branches of the apex bank ; (*ii*) in those States where there is a small number of strong central banks and a large number of weak banks, the apex bank should open branches in places where the weak central banks exist at present ; (*iii*) in a State where the majority of the district central co-operative banks are strong,

it is not advisable to disturb the existing structure. In such cases, the weak banks, which form the minority, may be converted into branches of apex bank till such time as they are transformed into strong viable banks.

10.56 In States where both the apex and district central co-operative banks are strong, there is no need to disturb the structure.

10.57 It is possible that the reorganised State co-operative bank in some States is likely to acquire deficits on account of taking over the assets and liabilities of the central co-operative banks already under 'rehabilitation' programmes or likely to be brought under such programmes. We recommend that in all such cases the net owned funds (share capital plus reserve fund) position of the reorganised banks be ascertained and where necessary suitable share capital contributions be made from the National Agricultural Credit (Long-term Operations) Fund of the Reserve Bank of India, taking care to see that the capital base is not thereby made excessive.

10.58 A problem that is likely to arise after such a reorganisation is that the reorganised bank alone would not be in a position to raise resources from the Reserve Bank because in terms of its statute two good signatures are to be furnished on the promissory notes submitted for discount to the Reserve Bank. It has been pointed out that the Reserve Bank would not be in a position to accept the signature of the large number of primary credit societies or marketing and other co-operatives for practical reasons. We recommend that the Reserve Bank of India Act, 1934, may be amended so as to enable it to provide financial accommodation to a State co-operative bank against a single (*i.e.*, co-operative bank's) good signature.

10.59 In those States where co-operative banks are generally strong and reorganisation on the lines recommended above is not considered necessary, we recommend that steps should be taken to simplify the existing documentation and procedural formalities that are required to be observed between apex and central banks. As a result of the proposed reorganisation in some States, offices of the central banks, as branches of apex banks, will acquire the status of the branches of a 'scheduled' bank, so long as the present distinction between the 'scheduled' banks and other banks remains.[1] This would mean, however, that those central co-operative banks which continue their independent existence because of their good performance will remain non-scheduled. The Commission feels that if these banks wish to be included in the Second Schedule to the Reserve Bank of India Act, 1934, it should be possible for them to be so included. In order that central co-operative banks are also enabled to be scheduled, the Central Government should notify them as eligible institutions under section 42(6)(a)(iii) of the Reserve Bank of India Act, 1934.

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[1] See Chapter 19, paragraph 19·95.

Borrowings

10.60 Apart from deposits, the main source of funds of co-operative banks is the Reserve Bank of India. The dependence of the co-operative system on the Reserve Bank of India has grown considerably over the years. The outstanding borrowings of the State co-operative banks from the Reserve Bank at the end of 1969-70 amounted to Rs. 243 crores as compared with Rs. 114 crores at the end of 1960-61. As at the end of June 1970, their borrowings from commercial banks amounted to Rs. 13 crores and those from Government to Rs. 16 crores.

10.61 Asked about the most convenient source of funds under the existing conditions, the majority of the central banks and some apex banks have felt that the Reserve Bank of India is the most convenient source, evidently on account of the concessional nature of Reserve Bank finance. A few banks have shown preference for the State Bank of India finance on account of its availability on the spot.

10.62 On the question of dependence on the Reserve Bank for finance most central banks have regarded it as indispensable because of (*a*) the inability of the banks to mobilise deposits, (*b*) the need for providing cheaper credit to the ultimate borrowers, (*c*) the need to maintain a reasonable margin between borrowings and lendings, and (*d*) the need to satisfy the growing demand for credit from agriculturists. Some apex and central banks thought that it was not desirable to continue to depend on the Reserve Bank for funds. The banks generally felt that the dependence on the Reserve Bank could not be dispensed with if the rate of interest charged to the ultimate borrower was to be kept low. If the banks depended on deposits, the cost of funds would go up. Besides, banks in backward areas would find deposit mobilisation difficult.

10.63 The State Governments were asked to give their views on how best commercial banks resources could be made available to the co-operative banks in order to reduce their dependence on the Reserve Bank. The alternatives suggested in the questionnaire were : (*i*) commercial banks keeping long-term deposits with co-operative banks, (*ii*) their buying the debentures or bonds floated by them, or (*iii*) commercial banks taking over a part of the agricultural loans made by co-operatives.

10.64 Five State Governments have suggested that commercial banks should keep deposits with co-operative banks and two have suggested commercial banks taking over part of their agricultural loans and six have suggested commercial banks buying debentures or bonds floated by co-operative banks. Those State Governments which considered floating of debentures feasible suggested that the bonds should be supported by Government guarantee.

10.65 On the other hand, 23 out of 31 central banks which considered the method of floating debentures/bonds feasible, suggested that bonds should be backed by Government guarantee and should be issued in smaller denominations at attractive rates of interest. Besides, they should also be treated as trustee securities and should be eligible for inclusion in the liquid assets maintained by banks. They have also suggested that the period of bonds or debentures should vary from 1 to 15 years.

10.66 However, eight of the reporting banks thought that floating of bonds or debentures should be done by apex banks and not by central banks. The difficulties visualised by them in this regard are : (*i*) the banks might not be in a position to redeem the bonds promptly as a major part of their advances would be for agricultural purposes and their repayment would depend, among other things, on good rains ; (*ii*) unless some pressure was applied, institutions would not buy the bonds ; (*iii*) it might have adverse effect on deposit mobilisation because the bond holders would receive better protection *vis-a-vis* that given to depositors ; and (*iv*) lending rates might go up.

Views of the National Banks

10.67 On the other hand, a large majority of the 12 reporting National Banks have felt that supplementing the resources of co-operatives by placing deposits with them is not practicable, because the minimum acceptable rate of interest on deposits is 7½ per cent, while the rate charged on advances to farmers by co-operatives is also more or less the same. They would, however, be willing to enter into participation arrangements wherever feasible. A few banks seem to be in favour of depositing their funds with some co-operative banks if their repayment is guaranteed by the Government, but the rate of interest should be 2 to 2¼ per cent above the Bank Rate. Those National Banks which are already providing agricultural finance on a significant scale do not seem to be in favour of making funds available to co-operative banks. They would prefer making direct loans.

Present Policy of the Reserve Bank for Providing Credit Facilities to Co-operatives

10.68 Under the existing policies followed by it, the Reserve Bank sanctions credit limits to central co-operative banks normally upto four times their owned funds to those classified under 'A' in audit, and three times their owned funds to those classified under 'B' in audit and twice their owned funds to those classified under 'C' in audit on the recommendation of the Registrar of Co-operatives. The last mentioned are sanctioned upto four times the owned funds on Government guarantee. In addition, 'A' class banks are also sanctioned twice the owned funds and 'B' class banks equivalent to their owned funds as 'additional credit' limits subject to their showing outstanding agricultural loans from their own resources to an extent equivalent to the

outstandings under such limits from the Reserve Bank of India. Relaxations of these standards on merits are not uncommon, in the case of banks operating in special programme areas like the High Yielding Varieties Programme (HYVP) areas.

10.69 The Reserve Bank also sanctions credit limits to banks for medium-term loans and for financing industrial co-operatives (*e.g.*, handloom weavers) upto an amount equal to the owned funds in each case. Thus, under ideal conditions, a bank would be eligible to get upto 8 or 9 times the owned funds from the Reserve Bank of India.

10.70 An important condition stipulated by the Reserve Bank following the recommendations of the Vaikunth Mehta Committee on Co-operative Credit (1960) is what is known as the 'non-overdue cover' in terms of which a bank is required to show 100 per cent cover for loans outstanding to the Reserve Bank by way of non-overdue loans due from societies. Unless this condition is satisfied, drawals on the credit limits are not permitted by the Reserve Bank of India. In recent years, another condition, *viz.*, 'minimum involvement' is being enforced on banks with a view to ensuring that co-operative banks strive to mobilise deposits and employ a part of their funds in agricultural financing.

10.71 One aspect of the Reserve Bank's policy of sanctioning credit limits to co-operative banks is to call for the State Government's guarantee in cases where the second signature of a central bank could not be regarded as good by reason of its poor financial position, heavy overdues, etc. Credit limits to as many as 141 banks were supported by Government guarantee in 1970-71. In recent years, there has been relaxation of this condition as a result of which more and more banks have been able to come forward to obtain credit limits against their own signatures.

10.72 A more important aspect of the Reserve Bank's policy is the concessional nature of its credit facilities. Short-term agricultural loans are made at 2 per cent below the Bank Rate, while loans for financing industrial co-operatives (*e.g.*, handloom weavers' co-operatives) and medium-term agricultural purposes are made at 1½ per cent below the Bank Rate.

Procedures

10.73 Short-term credit limits for agricultural purposes are fixed annually by the Reserve Bank in respect of each central co-operative bank on the basis of an application in a prescribed form together with necessary information and documents. The central banks apply through the relative apex banks and the Registrar of Co-operative Societies. The limit is fixed taking into account the financial position of the central bank, its audit classification, owned funds, its ability to match the proposed borrowings by non-overdue loans outstanding against its borrowers, and finally its lending programme.

10.74 However, as a result of the co-operative movement in certain States being weak and its inability to fulfil the conditions laid down by it, the flow of credit to these States has been very much less than to those where the movement is well developed (Table 10.4).

10.75 What, in our view, is of the utmost importance is that the lending at the level of the ultimate borrowers should be sound. Towards this end, we have made appropriate recommendations in Chapter 9. To what extent the Reserve Bank may finance a co-operative bank should be determined not so much by the audit classification and the prescribed multiples of owned funds, but by the extent to which it has been in a position to make sound use of resources. Where the co-operative banks are financially sound, managed efficiently and when sound loaning policies are followed, it should be able to get credit facilities for meeting its actual needs. This may mean relaxation of or altogether dispensing with the existing multiples.

10.76 The problem, however, arises in the case of banks which are weak and are not so sound, and where loan policies require to be rationalised. In these cases, what the Reserve Bank provides by way of credit limits should be part of a total 'package' consisting of credit plus management guidance, plus a concrete annual programme for improving the loaning system along the recommendations made by us. This would enable weaker co-operative banks to draw larger loans from the Reserve Bank.

A Specialised All-India Bank

10.77 It is in this context that we have considered the suggestions for setting up of a National Co-operative Bank or an Agricultural Development Bank of India on the lines of the Industrial Development Bank of India (IDBI).

10.78 A number of arguments have been advanced, especially by a section of co-operative leadership, in favour of the former. These are: (*a*) it would help the co-operative system as a whole in developing self-reliance in the matter of resources; (*b*) a National Co-operative Bank would be in a better position to help and guide the co-operative banks than the Reserve Bank of India which is not a co-operative institution; and (*c*) it would be more responsive to the requirements of co-operative banks than the Reserve Bank. We have also considered in this connection the views expressed by the All-India Rural Credit Review Committee on the question of setting up of a National Co-operative Bank or National Agricultural Development Bank of India.

10.79 Taking the question of resources for the co-operative system, it would be obvious that an institution of the type suggested cannot mobilise deposits as that would mean setting up of branches and competing with the lower level credit institutions in the co-operative sector. Therefore, the only

TABLE 10·4—POSITION OF AVAILABILITY OF RESERVE BANK OF INDIA CREDIT FACILITIES

Name of the State	Population in the villages (in lakhs)		Amount of RBI Credit outstanding at State co-operative level (Rs. in crores)		Amount of RBI Credit outstanding per thousand rural population (Rs. in thousands)		Loans outstanding at primary level per thousand population (Rs. in thousands)		RBI Credit outstanding per thousand borrowing members (Rs. in thousands)	
	1968-69	1969-70	1968-69	1969-70	1968-69	1969-70	1968-69	1969-70	1968-69	1969-70
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	335	348	13	11	4	3	9	10	166	123
2. Assam	132	103	—	—	—	—	4	5	—	—
3. Bihar	492	492	8	5	2	1	2	4	104	56
4. Gujarat	182	182	23	33	13	18	40	48	354	479
5. Haryana	77	77	10	7	13	9	19	22	303	214
6. Himachal Pradesh	32	32	0·1	0·5	—	2	17	21	8	32
7. Jammu and Kashmir	32	39	—	—	—	—	8	8	—	—
8. Kerala	171	171	9	10	5	6	13	17	160	168
9. Madhya Pradesh	326	326	25	29	8	9	19	23	240	295
10. Maharashtra	348	348	30	46	9	13	37	41	224	330
11. Mysore	211	211	18	12	9	6	20	21	310	180
12. Nagaland	4	4	—	—	—	—	—	—	—	—
13. Orissa	190	190	4	3	2	2	10	10	102	90
14. Punjab	104	104	25	25	24	24	40	49	233	215
15. Rajasthan	205	205	11	12	5	6	9	10	214	222
16. Tamil Nadu	272	279	19	19	7	7	19	20	225	299
17. Uttar Pradesh	744	744	28	24	4	3	9	11	181	126
18. West Bengal	316	316	3	5	1	2	5	5	135	138
Total	**4173**	**4171**	**226**	**242**	**5**	**6**	**15**	**17**	**205**	**207**

Source : Statistical Statements Relating to the Co-operative Movement in India.

resources such an institution can mobilise are from borrowings either from the Reserve Bank or from the market. So far as the former type of resources are concerned, the setting up of a national level institution merely imposes one more tier in the system with the possibility of the cost of credit being increased thereby. As regards borrowings from the market under the conditions in which the market for gilt-edged and semi-gilt-edged securities is likely to remain in the foreseeable future, it is very doubtful whether the proposed national level institution will be able to mobilise any resources from this market.

10.80 In the total scheme for bridging the credit gaps in the agricultural sector, the major difficulty is that the co-operative banking sector which has a very wide-spread organisation at the field level is unable to mobilise deposits, while the commercial banks which are able to mobilise deposits in a substantial manner are unable to provide credit to agriculture owing to their low coverage of rural sector and their lack of knowledge of the problems of lending to this sector. Thus, it is not only a problem of shortage of resources in relation to the credit needs of this sector but, even more important, it is a problem of ensuring the distribution of available credit. It is this problem which has engaged our attention in these chapters on co-ordination between the two types of banks and we have made a number of recommendations to solve it. These recommendations will naturally take some time to be fully effective. Meanwhile, a way has to be found for meeting the growing needs of the rural sector.

10.81 In the future development of the economy, credit planning is expected to play a significant role. A proper system of credit planning should comprise both a system of making sectoral allocations of credit from time to time and a system which ensures that the decisions of the credit planning authorities are properly implemented. Since in the case of the agricultural sector, the main problem is of distribution of credit allocated, the authorities will have to devise ways and means of utilising the geographical spread of the co-operative system to the fullest extent. That is to say, they will have to devise methods by which any shortfall in the performance of the commercial banks in agricultural credit in relation to the allocation out of their resources for agricultural credit is made good by channelling more credit through the co-operative sector. In doing so, however, care has to be taken that the total credit situation remains under control. In other words, in this process, creation of additional credit beyond the total envisaged in the credit plan has to be avoided.

10.82 Keeping the total credit situation under control and ensuring that the various sections of the economy actually receive the credit allocated is the primary responsibility of the central banking authority, *i.e.*, the Reserve Bank of India. The Reserve Bank has the necessary powers and the expertise to do so. In particular, the Agricultural Credit Board of the

Reserve Bank of India is intended to consider problems of this type. The proposed National Co-operative Bank can hardly have any role to play in this matter.

10.83 Besides, the creation of a National Co-operative Bank will not create new resources other than those which are now commanded by the banking system and the term financing institutions. What is required at the top level is not a new institution but an improvement in the mechanism of the flow of funds.

10.84 The other proposal, *viz.*, an Agricultural Development Bank on the lines of IDBI is mainly intended to bring together the expertise available for the development of agriculture and agricultural financing and not so much the resources, because in our view, the responsibility of allocating resources and ensuring adequacy of funds for agriculture rests with the Reserve Bank. The Agricultural Refinance Corporation which is a subsidiary of the Reserve Bank has already developed considerable expertise in project-oriented loaning. The Agricultural Finance Corporation has developed much valuable experience in this field. However, the Agricultural Refinance Corporation's resources and expertise have become available largely to the Land Development Banks and the other co-operative banks do not appear to have availed themselves of this facility to any significant extent. Similarly, the Agricultural Finance Corporation's services are, by and large, available to the commercial banks.

10.85 We have indicated earlier in Chapter 9 the inadequacy of medium-term loaning by the central co-operative banks. This is on account of lack of expertise in analysing and developing medium-term loan programmes. There is a need for enabling these banks to undertake development loaning on a project as well as on individual basis on a very large scale, if they are to play a comprehensive role with regard to agricultural finance in their areas. At the same time, commercial banks also will have to make greater use of facilities available from the Agricultural Refinance Corporation in order to supplement their own resources and to take more active interest in a comprehensive type of development loaning.

10.86 In view of these considerations, we feel that there is a strong case for combining the Agricultural Refinance Corporation and the Agricultural Finance Corporation. The new institution that combines the Agricultural Refinance Corporation and the Agricultural Finance Corporation will be in a better position to help promote development financing to a much greater extent by both co-operative and commercial banks. It should be in a position to undertake many of the comprehensive functions outlined for the Agricultural Finance Corporation and undertake direct financing wherever necessary. It would not have the shortage of finance which the Agricultural Finance Corporation suffers from to-day because the combined institution

would be in a position to draw from the Reserve Bank a part of the resources that may have been made over to it by commercial banks from time to time from out of the allocations made for agricultural finance. This would also ensure effectiveness of co-ordination between term-financing, technical assistance and finance for current operations within the Reserve Bank complex.

Recommendations

10.87 The Commission endorses the recommendations of the All-India Rural Credit Review Committee regarding the need for the co-operative banks appointing well qualified and trained staff and the extension of the Deposit Insurance Scheme to them. The Commission also considers that it is necessary that the Reserve Bank of India should link the rate of interest charged on its loans to co-operative banks to the deposit mobilisation efforts put in by them and recommends that the Reserve Bank should formulate a scheme at an early date for this purpose.

10.88 At present there is considerable variation in the regulation of co-operative banks, their inspection and the assistance they get from State to State. This has led to difficulties in the efficient management and functioning of the co-operative banks. As these banks are the main channel for providing institutional credit to agriculture, the differences mentioned above create a number of difficulties in effective implementation of the monetary and credit policy of the country. Moreover, the financial assistance provided by the States to these banks is mostly from the resources of the Reserve Bank or the Central Government.

10.89 The Commission feels, therefore, that from the point of view of ensuring a unified monetary and credit policy, uniformity of laws relating to credit supplying agencies and ensuring a high quality of management of these agencies through programmes of training and exchange of information, co-operative credit should be transferred to the Union or the Concurrent List. The Commission has made recommendations regarding this in Chapter 19.

10.90 Thus, the policy regarding owned funds of co-operative banks is based partly on the principle of maximum borrowing power being a definite multiple of the owned funds and partly on the principle of increasing such funds for the purposes of absorbing overdues. For the co-operative credit agencies, the share capital base has become rather large in relation to volume of business resulting in a low rate of return to the individual shareholder. On the other hand, for the individual members, this has resulted in a good part of the share capital being collected from loans as compulsory deductions. From the point of view of the shareholder it is more advantageous if the co-operative concentrates on deposit mobilisation rather than on raising more share capital. The Commission feels that the requirements of owned funds should be related to such factors as (*i*) the fixed capital requirements of the

credit agency; (*ii*) bad and doubtful debts; and (*iii*) quality of other loans and recommends that the Reserve Bank should review the policy in this light and revise the requirements for share capital contribution.

10.91 The policy of establishing a central co-operative bank for each district does not take into account such facts as differences in the physical endowments of the districts, inadequacy of rainfall and the consequent possibility of recurrent crop failures, etc. The central banks established in districts with poor agricultural potential are considerably handicapped and, therefore, remain weak. Unless the economy of such districts is improved through programmes which generate productive activities other than agriculture, these banks are not likely to improve.

10.92 Apart from districts of this type, weaknesses have developed for one reason or another in central banks in a number of other districts also. Weak central banks are unlikely to be useful instruments of credit policy. The Commission, therefore, recommends that wherever such weak central banks exist, the co-operative structure should be reorganised. In the Commission's view, this can be done in the following manner :

(*i*) In those States where all the district central banks are weak, it will be better to reorganise the structure so as to have only branches of the apex bank ;

(*ii*) In those States where there is a small number of strong central banks and a large number of weak banks, the apex bank should open branches in places where the weak central banks exist at present ;

(*iii*) In a State where the majority of the district central co-operative banks are strong, it is not advisable to disturb the existing structure. In such cases, the weak banks which form the minority, may be converted into branches of apex bank till such time as they are transformed into strong viable banks ;

(*iv*) However, in States where both the apex and district central co-operative banks are strong, the present structure may be allowed to continue.

10.93 The additional share capital requirements, if any, for such reorganisation may be made from the National Agricultural Credit (Long-term Operations) Fund of the Reserve Bank of India.

10.94 The strong central co-operative banks may be accorded the status of a 'scheduled' bank if they so desire.

10.95 The proposed reorganisation of weak central banks as branches of apex banks and granting of a 'scheduled' status to strong co-operative banks may create some difficulties for these banks in raising resources from the Reserve Bank because of the requirement of two good signatures to be furnished

on the promissory notes submitted for obtaining accommodation from the Reserve Bank. The Commission recommends that the Reserve Bank of India Act, 1934 may be suitably amended to enable it to provide financial accommodation against a single good signature.

10.96 In order to enable the central and State co-operative banks to finance small scale industries in their States, the Commission recommends that individual membership in such banks should be allowed upto a limit to be specified by the Reserve Bank of India.

10.97 In providing finance through the central co-operative banks, the Reserve Bank should not proceed on the basis of the Reserve Bank finance being given upto a fixed multiple of the owned funds of the bank or on its precise audit classification. Financial soundness and efficient management should be the basic criteria to be employed for such a purpose.

10.98 The Commission has examined the suggestions for setting up either a National Co-operative Bank or an Agricultural Development Bank of India on the lines of the Industrial Development Bank of India. In the Commission's view, the major part of the difficulties in providing credit needed by agriculture are with the field level organisation and the Commission has made several recommendations to meet them. As regards the problem of resources, it is the primary responsibility of the Reserve Bank of India to regulate the availability of credit to the different sectors and it has the necessary powers and the expertise for this purpose. Establishment of a National Co-operative Bank is not likely to mobilise any more resources for this purpose. On the other hand, by creating one more tier, it is likely to add to the cost of the distribution of credit. Besides, it is important that all short-term credit, which has an important bearing on the money supply, should be under the control of a single authority and that authority can only be the Reserve Bank.

10.99 With the introduction of credit planning, it may be expected that broad sectoral allocations of the total available credit will be made from time to time by the credit planning authorities. However, because of the inadequacies of both the commercial and co-operative banks at the primary or the field level, there is likely to be a problem for some time to come of credit to agriculture and other productive activities in the rural areas not being made available fully. In particular, it is likely that while the deposits raised by the co-operative banks will be fully utilised for this purpose, the allocation out of commercial banks deposits remains unutilised. The Commission recommends that the Agricultural Credit Board of the Reserve Bank of India should keep this matter under constant review and devise ways and means of utilising the allocation from commercial banks deposits more fully. The Commission, therefore, considers that there is no case for establishing a National Co-operative Bank.

10.100 As regards the establishment of an Agricultural Development Bank of India, the Commission is of the view that the Agricultural Refinance Corporation and the Agricultural Finance Corporation may be combined so that the resources available in both the institutions are put to the best use. The Agricultural Refinance Corporation which is a subsidiary of the Reserve Bank of India has already developed considerable expertise in project-oriented loaning. The Agricultural Finance Corporation which has been established by commercial banks, the majority of which are now in the national sector, has also developed its own expertise for identifying and formulating potential agricultural projects and organising consortia of commercial banks. The new institution formed by merging the two Corporations can serve the purposes the proposed Agricultural Development Bank of India is expected to serve.

Urban and Industrial Co-operative Banks

Urban Co-operative Banks

10.101 The main objectives of urban co-operative banks are to promote thrift by collection of deposits from members and others and to advance loans to members. They cater to the banking and credit needs of mainly the urban middle class consisting of traders, businessmen, artisans, factory workers and salaried persons with a fixed income in urban and semi-urban areas. These are important mainly in five States, *i.e.*, Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Mysore.

10.102 The area of operation of an urban co-operative bank is normally restricted under its bye-laws to the municipal area or town where it is located. More than one urban co-operative bank may, however, function in the same area as there is no demarcation of areas within a city amongst various urban co-operative banks.

Membership

10.103 Generally, there is a preponderance of individual membership in urban co-operative banks and institutions such as joint stock companies and firms constitute a negligible proportion of the total membership.

10.104 The Study Group on Credit Co-operatives in the Non-Agricultural Sector (1963) had recommended that no restrictions should be placed on the size of the urban banks. It stressed that the banks should have a strong base for raising adequate resources so that they could effectively cater to the requirements of their members. Regarding the size of memberhsip, it recommended that the banks should aim at a minimum membership of 1,500. In areas where urban co-operative banking is well developed, it exceeds this limit but in most cases there is scope for increasing membership.

Branches

10.105 Branch banking is not yet a common feature among the urban co-operative banks. There are reported to be around 220 branches. Most urban banks have to introduce systems of effective branch control and inspections. For opening of branches urban banks are required to take permission of the Registrar ot Co-operative Societies as well as of the Reserve Bank of India. Urban banks urged, in their evidence, for proper co-ordination between them and commercial banks in the matter of branch expansion.

Owned Funds

10.106 The position of urban banks is presented in Table 10.5. The owned funds of banks range from about 10 to 30 per cent of their working capital. The maximum borrowing power of a bank is fixed generally at 8 to 12 times of the owned funds. There are instances of banks finding these limits inadequate. In some States (*e.g.*, Maharashtra), they are at a disadvantage if they accept deposits in excess of this limit, because they are required to invest such funds in Government securities and keep them in safe custody with the apex bank.

Deposits

10.107 The urban banks accept all types of deposits, *viz.*, current, savings, fixed and other deposits, such as recurring deposits, home savings deposits, etc. The performance of the urban co-operative banks in deposit mobilisation has generally been satisfactory and several institutions depend to a small extent on borrowings.

10.108 In some cases, urban banks are not eligible to accept deposits from local bodies and other similar institutions. Some urban banks have suggested to the Commission that those with a standing of more than 5 years should be allowed to accept deposits from such bodies.

10.109 The urban banks generally allow a slightly higher rate of interest on deposits than what the local commercial banks offer. They are required to deposit their surplus funds with the concerned apex co-operative bank. Some banks have pointed out that, as a result they stand to lose, because the rate of interest paid by the apex bank does not correspond to the rate paid by them on their deposits. The apex bank makes profit by investing the surplus resources outside the co-operative sector but urban banks have no such facility.

10.110 In terms of the Banking Regulation Act, 1949, urban banks have to maintain cash reserves and liquid assets. However, when balances are kept with the banks outside the area of operation, banks are required to obtain the permission of the Registrar of Co-operatives. The balances kept with the national banks do not count for liquid assets.

TABLE 10·5—URBAN CO-OPERATIVE BANKS

(Rs. in crores)

	Position as on 30-6-1969 Amount	30-6-1969 *Percentage to Working Capital*	30-6-1970 Amount	30-6-1970 *Percentage to Working Capital*
1. Owned Funds	31·14	*18·9*	33·88	*18·4*
2. Deposits	125·92	*76·4*	140·63	*76·4*
3. Borrowings	7·68	*4·7*	9·58	*5·2*
4. Total working capital	**164·74**	*100·0*	**184·09**	*100·0*

TABLE 10·6—INDUSTRIAL CO-OPERATIVE BANKS

(Rs. in crores)

	Position as on 30-6-1969 Amount	30-6-1969 *Percentage to Working Capital*	30-6-1970 Amount	30-6-1970 *Percentage to Working Capital*
	STATE			
1. Owned Funds	1·70	*33·8*	1·90	*38·1*
2. Deposits	1·16	*23·1*	0·98	*19·7*
3. Borrowings	2·17	*43·1*	2·10	*42·2*
4. Total working capital	**5·03**	*100·0*	**4·98**	*100·0*
	CENTRAL			
1. Owned Funds	2·03	*22·9*	2·17	*20·9*
2. Deposits	3·25	*36·6*	3·89	*37·5*
3. Borrowings	3·60	*40·5*	4·30	*41·6*
4. Total working capital	**8·88**	*100·0*	**10·36**	*100·0*

Source : Statistical Statements Relating to the Co-operative Movement in India.

Loans and Advances

10.111 Urban banks make loans and advances for various purposes including building or repairing of houses, petty trade and industry, purchase of immovable property, ceremonial and educational expenses, redemption of prior debts, purchase of agricultural machinery, livestock, etc. There is linking of shareholding with borrowing, the ratio in the case of unsecured loans being higher than in the case of secured loans.

10.112 The bye-laws generally provide for limits upto which advances can be made. These vary from Rs. 3,000 to Rs. 75,000 for different banks. In some States (*e.g.*, Maharashtra and Gujarat) there is preponderance of short-term loans while in certain others, medium-term loans (3 to 5 years) constitute a larger proportion. For making long-term loans, many urban banks do not possess the required expertise.

10.113 Urban banks have argued before the Commission that they should be enabled to expand their business. Towards this end, they should be allowed to finance co-operative marketing societies for fertiliser business, etc. Some undertake financing of small scale industries. But many are yet to develop expertise in this regard. The limitations placed on unsecured loans should be lifted. It was also suggested that credit guarantee facility for small industries should be made available through the State Bank of India. One bank pleaded for removal of present ceiling on advances and on holding of shares per person.

10.114 Some banks make loans against three guarantors. Where such loans formed a sizeable proportion of total loans banks found it administratively difficult to manage. They suggested a guarantee scheme for small loans so that the practice of obtaining sureties could be dispensed with.

Security

10.115 Loans and advances are made against the security of mortgage of unencumbered immovable property, personal surety of other members, pledge of agricultural produce, mercantile or industrial goods, gold and silver ornaments, Government and other trustee securities, fixed deposits, insurance policies, etc.

10.116 Quite a few banks in Tamil Nadu, Andhra Pradesh, West Bengal and Mysore have a high proportion of secured advances, while unsecured advances figure prominently in the loans portfolio of some banks in Maharashtra, Gujarat and Madhya Pradesh. Some of these banks have stressed the need for relaxing the limit on loans and advances.

Needs of Urban Banks

10.117 In their replies a number of urban banks expressed themselves in favour of accepting deposits with a maturity exceeding 5 years in order to enable them to finance block capital needs of small scale industries.

10.118 The need for concessional remittance facilities under the Reserve Bank of India scheme was also stressed by some urban banks. Some of the banks have stressed that they should be allowed to have all the privileges of a 'scheduled' bank when they reach a certain level of business.

Future Role

10.119 The Working Group on Industrial Financing through Co-operative Banks set up by the Reserve Bank (1967) envisaged a prominent role for the urban co-operative banks in securing adequate finance for small scale industrial units which are run by individuals, firms and joint stock companies.

10.120 Following its recommendations, the Reserve Bank decided to sanction long-term loans to State Governments to enable them to contribute to the share capital of urban co-operative banks. The banks are also made eligible for refinance facilities under Section 17(2)(*bb*) of the Reserve Bank of India Act, 1934, in respect of their finance to 22 broad groups of small industries. The State Governments/urban banks have yet to avail themselves of these facilities in a significant way.

State Industrial Co-operative Banks

10.121 At the end of June 1970, there were 3 apex industrial co-operative banks, one each in Mysore, Rajasthan and Tamil Nadu in the country. In the case of apex industrial co-operative banks in Tamil Nadu and Rajasthan, there is no separate organisation at the district level for financing industrial co-operative societies; while in the case of Mysore there are district industrial co-operative banks. The financial position of the apex and central industrial co-operative banks is presented in Table 10.6.

Central Industrial Co-operative Banks

10.122 There were 24 central industrial co-operative banks in the country as at the end of June 1970. The majority of the central industrial co-operative banks, *viz.*, 20 were established in Mysore State alone. Of the remaining, 2 banks were located in Gujarat and one each in Maharashtra and Punjab. In the case of central industrial co-operative banks there was a preponderance of individual membership and individual financing.

10.123 The Working Group on Industrial Financing through Co-operative banks appointed by the Reserve Bank in June 1967 made the following recommendations in regard to the State and central industrial co-operative banks :

> " . . . . No strong justification exists . . . to request the Reserve Bank to depart from its policy of not recognising state-level industrial co-operative banks independently of the State co-operative banks either for the provision of financial accommodation from the Reserve Bank or for the purposes of the Credit Guarantee Scheme.
>
> (*i*) Such of the existing industrial co-operative banks as have already developed into viable institutions should be encouraged to continue to function by extending to them the facilities to which the central co-operative banks are entitled. Specifically, this means that they should be (*a*) considered on merits for licensing under the Banking Regulation Act, 1949; (*b*) recognised as approved institutions for purposes of the Credit Guarantee Scheme; and (*c*) recognised also for the purpose of channelling financial accommodation from the Reserve Bank.
>
> (*ii*) Such of the existing industrial co-operative banks as are not viable at present but can be developed into viable institutions over a period of time should be given an opportunity to develop in this direction. As soon as the Reserve Bank is satisfied that a particular central industrial co-operative bank shows promise of functioning as a viable unit, it should be given the same facilities as the institutions under the first category.
>
> (*iii*) Industrial co-operative banks which do not satisfy the criteria of viability or potential viability should be merged with central co-operative banks in suitable cases, or if they have a large membership of individuals, reorganised into primary co-operative banks.
>
> (*iv*) If the above courses are not practicable or warranted, the central industrial co-operative bank concerned should be taken into liquidation without any delay."

Recommendations

10.124 Urban co-operative banks do useful work in mobilising deposits and financing the sector of small borrowers such as small seale industries, professionals, retailers and so on. Another useful activity is the financing of house construction and repairs for members of the banks. Also, this type of banking provides a useful avenue for those who have the necessary ability to set up a bank.

10.125 The Commission recommends that establishment of urban co-operative banks should be encouraged by the authorities, by such means

as (*i*) according the status of a 'scheduled' bank to the well managed urban co-operative banks if they so desire; (*ii*) counting towards liquid assets the deposits which these banks place with the national banks; and (*iii*) asking the national banks to give such of the urban co-operative banks which remain non-scheduled, free remittance facilities and borrowing facilities on reasonable terms.

10.126 The Commission further recommends that in order to ensure that the productive and distributive activities are adequately financed by such banks (*i*) there should be a system of ceilings on the borrowings by individual members on the basis of the purpose for which the loan is obtained instead of linking it only to the amount of shares held; (*ii*) lending for long-term purposes, such as house construction, should be allowed subject to a ceiling that may be specified by the Reserve Bank of India regarding the proportion of such lending to the total loans given by the bank; and (*iii*) similarly, there should be a ceiling on the proportion of total loans for consumption purposes ; this ceiling need not apply in the case of employees' co-operative credit societies.

10.127 The Commission recommends that steps should be taken to enable the urban co-operative banks to make better use of the financial assistance available from the Reserve Bank of India.

10.128 The Commission supports the recommendations of the Working Group on Industrial Financing through Co-operative Banks, some of which have been mentioned earlier.

CHAPTER 11

BANK OPERATING METHODS AND PROCEDURES

INTRODUCTORY

11.1 The Commission under its term of reference No. (iii) is required to make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks. In this chapter it is proposed to review the existing position of the operating methods and procedures and make recommendations for improving and modernising them. It is also proposed to deal with certain aspects of the management policies which have a direct bearing on the operating methods in this chapter, while the other aspects, *viz.*, budgetary control and profit planning, and management development are dealt with in Chapters 12, 13 and 14.

11.2 In order to assess the standard of services rendered by commercial banks, several questions relating to bank organisation and operating methods and procedures were included in the questionnaire issued by the Commission to them.[1] Besides, the National Council of Applied Economic Research, New Delhi, was entrusted with the enquiry regarding the depositors' and Agents'/Managers' appraisal of banking services and the Vaikunth Mehta National Institute of Co-operative Management, Poona, was requested to study the procedures and methods relating to banking services followed by co-operative banks. The Commission also appointed a Study Group on Bank Procedures[2] in February 1970 (referred to in the rest of the chapter as 'the Group') to review the operating methods and procedures prevalent in the banking system in the country and to make suitable recommendations for their improvement, keeping in view the need for rendering speedy and efficient services to various types of constituents as also the safety of banking transactions, and on any other related subject matter.

11.3 The report of the Vaikunth Mehta National Institute of Co-operative Management was received by the Commission in November 1970 while the survey report of the National Council of Applied Economic Research and the report of the Group were received during March-July 1971. While finalising

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1 For analysis of replies to some of these questions, see Annexure IV to the Report of the Study Group.

2 See Appendix III for composition and terms of reference of the Study Group.

its recommendations the Group took into account the findings of the Workshops on various subjects organised by the National Institute of Bank Management and the studies made by the Indian Banks' Association on matters relating to clearing. The Commission's observations and recommendations in this chapter are largely based on the information contained in these reports.

Review of Bank Procedures and Operating Methods

11.4 Commercial banking in India in the past catered mainly to the needs of trade, commerce and industry and the offices of banks were mostly located at the important trade and industrial centres. With the transformation which the economy has been undergoing since independence, under the impact of planning, there has been, as stated earlier, considerable expansion in the geographical and functional coverage of banking as also in the number of customers and the volume of transactions handled by banks. Thus, the number of deposit accounts with scheduled commercial banks has increased from 32 lakhs as at the end of 1951 to 183 lakhs as on March 31, 1969. The number of cheques cleared has also increased from 2.80 crores in 1951 to 10.27 crores in 1969 and their total amount has gone up from Rs. 7,878 crores to Rs. 31,958 crores. Further, the past two decades also saw a radical change in the structure of commercial banking in India. As a result of consolidation, the number of banks has been reduced from 566 in 1951 to 86 in June 1971, while the number of bank offices increased from 4,151 to 12,041 during the same period. Also, with the nationalisation of 14 commercial banks, over 80 per cent of banking business has now come into the public sector. There has simultaneously been diversification in the activities of banks since, as a policy objective, commercial banks are required to meet the credit needs of the agriculturists and other neglected sectors of the community, *i.e.*, the small farmer, the artisan, the small industrialist, self-employed persons, etc.

11.5 With the rapid growth and the shift in the emphasis on the objectives, banks have been largely pre-occupied with the problems of recruitment, training and staff relations on the one hand and the need to exercise proper supervision and control over the increasing number of offices on the other. As a result, the question of improvement in the standards of service does not seem to have received sufficient attention of bank managements. A few banks have, no doubt, introduced innovations such as the teller system, loose leaf ledger system, manifold forms, use of adding and accounting machines, etc., on an experimental basis at certain important branches. Some have also recently established Organisation and Methods Departments for the purpose of streamlining the procedures. Further, a number of banks have liberalised their savings bank account rules, introduced new schemes for deposit mobilisation and offered concessions to account holders such as issue of free mail transfers, collection of cheques drawn on their branches at par and issue of travellers cheques free of charge. A review

of services provided by commercial banks in India has already been made in Chapter 4. However, with the prospect of continuous expansion on a sizeable scale, banks will continue to face problems of growth and will, therefore, need to take well organised energetic steps to ensure a high standard of service to their customers at all times by using appropriate operational, procedural and management techniques.

11.6 The survey made by the National Council of Applied Economic Research, referred to in paragraph 11.2 above, was on the basis of a sample of 500 selected branches of scheduled commercial banks, and covered 5,000 depositors. It revealed that though the existing banking services were generally satisfactory, there was still a wide scope for their improvement. According to its findings, the bulk of the depositors opened a bank account on their own initiative and only 6 per cent of them were initiated through the efforts of the bank or its staff. The dominant reasons indicated by the depositors for choosing a particular bank were efficient, courteous and personalised service and proximity to residence followed by standing and size of the bank and interest rates. Altogether, only 7 per cent of the depositors had any complaint in respect of one or another of the bank's services. Their main complaints related to delays in encashment of cheques, collection of bills, receipt of periodical statements, etc. and unhelpful and un-cooperative attitude of the staff. The prominent suggestions for remedying these delays included increase in the strength of staff, introduction of the teller system, uniform collection charges for cheques, regular communication of balance in the account and use of regional languages. The suggestions for increase in the strength of staff and introduction of the teller system had also been made by the Agents/Managers of the sample branches. The Council felt in this regard that the depositors exhibited a general attitude of not assessing the services rendered by banks critically and expressed what struck them obviously and further that while making the suggestion for increase in the staff neither the depositors nor the Agents/Managers seemed to have thought in terms of the means by which the output per worker in the banks could be improveed.

11.7 Several complaints regarding delay on the part of the banks in rendering banking services were received by the Commission during its discussions with various persons and institutions in different States of the country. These mainly related to inordinate delays in clearance of outstation bills and cheques, in providing statements of accounts to customers, in writing of pass books and in sanctioning of loans and advances and emphasized the need for improvement in procedures to eliminate delays.

Recommendations for Improving and Modernising the Operating Methods and procedures of Commercial Banks

11.8. The important considerations kept in mind by the Commission while framing the recommendations for improving and modernising the operating methods and procedures of commercial banks are decentralisation of

authority for cutting out delays, elimination of dual control wherever feasible by placing more faith in the employees, the need to render expeditious services to the increasing number of customers and the need to collect and analyse data relating to the functioning of the banks in relation to the problems of the economy. These recommendations are illustrative rather than exhaustive. Also in their implementation by individual banks they may require modifications to suit their size, area of operations and volume of transactions and in some cases, it may be necessary to implement them on a pilot basis in the first instance. Some of the recommendations are based on the practices which are already in operation in some banks but have nevertheless been included in this chapter so as to be useful to other banks. It hardly needs to be emphasized that any innovation in banking practices and procedures by itself will not achieve the objectives in view, unless the organisation of work and personnel policies motivate the staff at all levels to do their best in accomplishing the tasks set before them.

11.9 The recommendations have been grouped under five heads, *viz.*, customer services, credit procedures, internal control systems, organisation and management, and miscellaneous.

I. Customer Services

11.10 Customers feel the impact of a bank's practices and procedures, when they contact it either personally, through a messenger or through post. The most important contact point is the counter, while the contact by post is mostly through statements of account, credit or debit advices, balance confirmation letters, letters of complaint and those seeking advice. In order to create a good image in the minds of customers for retaining existing business and attracting fresh business, it is necessary that their waiting time at the counters should be minimised, proper guidance should be given to them by providing enquiry counters and behaviour of the staff with them should be courteous and helpful.

The Teller System

11.11 One of the important measures for reducing the waiting time of customers at the counter is the adoption of the teller system. A few Indian commercial banks have already introduced the teller system on an experimental basis but the details of procedures followed by them differ, the main variations being the Instant Payment/Receipt system and the Prompt Payment/Receipt system. In the former system, the teller is authorised to receive cash and make payments up to limited amounts without reference to the ledger balances or the specimen signatures as he is expected to be thoroughly conversant with the types of the accounts allotted to him and the specimen signatures of the relative depositors; only in cases of doubt he gets the balance or the signature verified by the ledger keeper and the supervising official

who are seated near him. The latter system involves maintenance of the record of the customers' accounts and their specimen signatures in duplicate. One set, in the form of cards, is with the teller who is authorised to pay cheques up to a specified amount out of the cash provided with him after verifying the signature and posting the cheque in the ledger card. The Commission recommends that the teller system should be adopted in all banks at all important branches for encashment of cheques and receipt of cash for credit to accounts. Banks may use their discretion as regards the type of the teller system, the nature of accounts to which it should be made applicable as well as in regard to the maximum limit for receipt and payment of cash under the system. As banks gain experience and confidence, they should extend the operation of the teller system to larger numbers of branches.

Other Measures for Expediting Transactions at the Counters

11.12 Customer services can be improved at the branches where the teller system is not in operation and where it is not proposed to be introduced immediately by making other procedural improvements. In order to avoid the delay caused by the practice of routing a transaction through a number of officials, the first line supervisors should be permitted to pass cheques for payment in cash up to at least Rs. 5,000. Ledger keepers should also be given powers to pass cheques for small amounts depending upon the size of the branch and the experience of the concerned staff. They should further be entrusted with authority to issue cheque books against production of requisition slips to the depositors who call at the bank personally. Whenever necessary, the supervising officers should go to the ledgers for passing cheques instead of waiting for the papers, ledgers or registers to be brought to them by messengers.

11.13 To facilitate location of accounts, the present system of maintaining accounts in an alphabetical order should be replaced by a numerical system which is more amenable to mechanisation. The number allotted to each account holder should be so devised as to indicate some information about him, *e.g.*, profession, constitution (individual, firm, company), etc., by adding a standardised prefix to his account number. Card indices should be maintained both in alphabetical as well as numerical order and, where necessary, rotating equipment[1] should be used for tracing the accounts. It should also be ensured that the account number is inscribed on all the cheque leaves before the cheque books are issued.

11.14 The waiting time of customers paying in cash can also be reduced by authorising the cashier to issue the counterfoil without its being counter-

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[1] Specimen signatures are arranged on this machine in an alphabetical order. The machine has wheels for easy movability and has also a locking device. The advantage of this machine is that on account of the rotating arrangement, it takes less time to locate the cards as compared to the specimen signature cabinets or albums mostly used by banks.

signed by another official. In order to maintain an independent record of cash receipts, the Scroll Book should be maintained by a member of the Accounts Department who should sit near the cash counter. The pay-in-slip would be first presented by the customer to the Scroll Book Writer for making an entry in the Scroll Book, numbering the pay-in-slip and passing it on to the receiving cashier who would then receive the cash from the customer, enter it in his Cash Receipt Book and deliver the counter-foil to the customer after signing it. Introduction of cash registering machines at bigger branches and use of counting machines will also be helpful in expediting cash transactions. Further, the practice of maintaining a record of denominations of currency notes in the Cash Receipt and Cash Payment Books involves duplication and should be dispensed with as these particulars are also noted on pay-in-slips and the cheques, drafts, vouchers, etc. For the sake of convenience, the particulars of currency notes should be noted on the face of the pay-in-slips instead of on the back by changing the form suitably.

11.15 As regards the cheques and bills tendered for collection and credit to accounts, the instruments should be allowed to be received by the bills clerk who should be authorised to sign the counterfoils singly after verifying that the instruments tendered are in accordance with the particulars noted in the pay-in-slip. Customers should, however, be notified to cross all instruments before tendering them for collection.

Measures for Improving Routines and Accounting Procedures

11.16 The statements of account and pass books should be written neatly, legibly and accurately and furnished to the customers promptly. Considerable difficulty is experienced by banks when the pass books are presented by savings bank account holders who are allowed to make withdrawals by cheques for being brought up to date after long intervals and consequently the return of pass books to customers is delayed. Banks should, therefore, discontinue the issue of pass books to such account holders and instead furnish them with statements of account, say at bi-monthly intervals. The banks which still issue pass books to current account depositors, should also switch over to the system of furnishing statements of account. Adequate arrangements should also be made to ensure prompt compliance with customers' standing instructions.

11.17 Considerable labour is involved in the preparation and despatch of the balance confirmation letters and in the verification of the depositors' signatures when they are received back. In actual practice, only a small percentage of depositors return the confirmation letters duly signed by them. Banks should, therefore, discontinue the practice of obtaining balance confirmations for credit balances in deposit accounts. The statements of accounts furnished to the depositors should contain a note to the effect that the items and the balances shown therein should be verified by the concerned depositor

and the bank notified of any discrepancy within a reasonable but specified time, failing which the last balance shown would be presumed as correct. The branch agent should, however, be allowed discretion to obtain confirmations in particular accounts where he considers them necessary in the light of his personal knowledge about the depositors and operations in their accounts. Besides, the internal auditor should be required during the course of audit to request a few depositors, selected at random, to confirm their balances and send the confirmations direct to him.

11.18 A planned programme for use of regional languages for account opening forms, pay-in-slips, cheque books, pass books, statements of account, etc., should be adopted and implemented by banks, so that within a period of three years or so dealings with customers are carried out entirely in the languages they fully understand. In order to make banking easily understood by the public, issue of pamphlets in regional languages portraying the advantages of carrying out monetary transactions through the medium of banks and audio-visual publicity through exhibition of documentaries would be immensely helpful. Government departments, local bodies, educational institutions, public utility concerns, public sector undertakings, etc. should encourage the use of cheques in their financial transactions with the public, where necessary, by suitably amending their rules and regulations.

11.19 For the convenience of customers, particularly those in rural areas, banks should also take expeditious steps to encourage the members of the staff and officers to learn local languages and for dispensing with the practice of obtaining letters of indemnity for vernacular signatures of the depositors and of transcribing and attesting such signatures. Banks should also make arrangements for taking and keeping on record photographs of illiterate depositors for facilitating their identification. The branches at places where the facility for obtaining photographs is not available should be provided with cameras and the branch officials given some training in taking photographs ; developing and printing can be got done at nearby centres where such facilities are available.

11.20 Banks should consider the feasibility of making payment of interest on fixed deposits on the expiry of every six months from the *date of deposit*, instead of paying it at the end of each calendar half-year except where the existing arrangements provide for payment of interest at shorter intervals. This change in procedure would evenly spread out the work of calculation and payment of interest and may also benefit the customers who depend for their living upon interest as they can plan their fixed deposits with banks in such a way as to ensure regular monthly income of interest for themselves.

11.21 Intricate and detailed calculations need not be resorted to for arriving at the exact amount of interest payable on various types of deposits

at the end of each month for the purpose of making provision therefor. Only an approximate provision need be made on the basis of the average rate of interest paid during the previous half-year applied on the daily balances in the General Ledger.

11.22 In view of the large increase in the number of accounts during the recent years, the weekly balancing of current accounts remains in arrears over long periods. Banks should, therefore, adopt the system of balancing the current account ledgers at monthly intervals. Further, while summations should be noted on ledger folios in order to verify the correctness of the balance in the account, their periodical balancing should be dispensed with.

11.23 Apart from the statutory closing of accounts at the end of December, some of the banks also close their accounts at the end of June each year and prepare the balance sheet and profit and loss account. Half-yearly closing enables banks to declare an interim dividend. This objective has lost its significance as the major banks in the country have been nationalised. These banks should, therefore, discontinue the practice of half-yearly closing of accounts as it entails considerable labour without commensurate benefits.

11.24 Receipt and payment cashiers should be required to maintain cash boxes which should be locked by them at the close of business every day and deposited in the vault without their contents being necessarily checked daily by the head cashier. The locked boxes would be delivered to the cashiers next morning. Cashiers should certify every day the amount of cash contained in the locked boxes and proper record of it should be maintained. Where considered necessary, a maximum limit should be fixed for cash thus kept in the cashiers' boxes. The contents of the boxes should be verified at periodical intervals on a surprise basis by head cashier or agent.

11.25 In order to minimise the incidence of frauds caused by interception of crossed cheques in transit and removal of crossing with the help of chemicals for obtaining wrongful payment at the counters, banks should issue cheque books with crossing printed thereon to the customers who require them. Such customers may be provided with two cheque books simultaneously—a crossed one and an open one—printed in different colours for easy identification. A similar system should be followed in respect of bank drafts. Instructions should also be printed on the cover of crossed cheque book that if cash payment is desired, the drawer should write the words 'crossing cancelled' on the cheque authenticated by his full signature. Increased use of ultra-violet ray equipment should also be made by banks at their urban branches and they should also supply protectograph machines to all offices which are authorised to issue drafts.

Mechanisation

11.26 Banks in several developed countries have largely replaced manual accounting systems by mechanised accounting systems and this has resulted in quicker and better service to customers. In India the process of mechanisation is still in a nascent stage. Mechanisation facilitates handling of an increased volume of work in a shorter period of time with greater accuracy and neatness and it can reduce a number of tedious, routine accunting jobs without increasing the overall operating costs. The time element is also very important in banks not only from the point of view of customer satisfaction and overall efficiency, but also from the point of view of the rest of the economy. Adding/listing and calculating machines are already in use in most of the banks, but mainly in the larger offices. For expediting customer services, more use can be made of the tellers' machine, the savings bank machine, the ledger posting machine and the cheque sorting machine. The electronic computer is particularly useful for reconciliation of inter-branch transactions and for processing a large volume of information useful for policy making and economic research. Although it is costly, banks can hire it on time or job basis. Alternatively several banks can purchase it jointly for use amongst themslves on a time-sharing basis.

11.27 Mechanisation should be introduced by banks, especially at larger branches, by adopting a phased programme and by taking the employees' unions into confidence. This will enable the staff doing work involving a lot of drudgery to do work of a higher order and enable their abilities to be used for more fruitful purpose. The Government on its part should also take positive steps to help the banks in getting over the difficulties such as non-availability of machines and opposition, if any, of the staff. It is, however, necessary when buying costly machines that banks exercise care so that machines which are likely to become obsolete in the near future are not acquired by them. Also wherever possible they should take concerted action to avoid machines remaining unutilised. There should also be a continuous review of the machine requirements at the different offices in the light of the changes in the volume and the type of work. Banks should endeavour to go on to the modern comprehensive types of machines as quickly as possible. Indigenous manufacturers should also be encouraged to produce machines to suit the requirements of Indian banking.

Clearing Houses

11.28 Though the number of clearing houses functioning in the country which was only 59 as on March 31, 1961 has progressively increased to 105 as on June 30, 1970, there are still over one hundred banked places with population exceeding 50,000 which do not have clearing house facilities. The annual percentage rate of increase in the number of cheques cleared through the clearing houses works out to 7.45 per cent per annum and there

seems to be a co-relationship between the growth in the number of cheque clearings and pace of development of the country.[1] The pressure on the clearing houses in metropolitan cities has also been increasing as will be evident from the fact that the number of cheques cleared at the clearing houses at Bombay and Calcutta has increased from 199.39 lakhs and 104.61 lakhs in 1961 to 336.90 lakhs and 130.83 lakhs respectively in 1969.

11.29 It is obvious that, with the growth of banking habit and banking facilities as well as the economic development of the country, cheque clearances will considerably increase in the coming years. There is thus a need for a wider network of bank clearing houses throughout the country as also for simplification of clearing house procedures. The feasibility of opening clearing houses at places with population of more than 50,000 which are served by more than 3 or 4 banks should, therefore, be examined by the concerned authorities keeping in view such factors as the expenses involved, the problem of space and personnel, the number of bank accounts and the average number of instruments that would pass through clearing. The State Bank of India should take a lead in the matter as it or its subsidiaries manage the clearing houses at places where the Reserve Bank of India has no office. At centres where the State Bank of India is not established but other banks or their customers feel a need for establishment of a clearing house, the initiative should be taken by the banks themselves, preferably by the lead bank.

11.30 During their discussions in different parts of the country, the Comission received complaints regarding delay in collection of local cheques by banks which in certain cases took as many as 8 days for realisation. It is, therefore, necessary that in order to reduce the work-load on the clearing houses and main offices of banks in metropolitan cities and to ensure quicker clearance of cheques, the feasibility of opening additional clearing houses in large cities to serve suburban or other composite areas should be expeditiously considered by the Reserve Bank of India. The location of additional clearing houses should depend upon the concentration of branches, the communication facilities and the volume and pattern of payment flows. Such clearing houses may be managed by the branch of the State Bank of India or any other suitable branch of a nationalised bank in the locality. Further, the banks which have not so far introduced the system of 'home' clearing in metropolitan cities should do so, so that cheques tendered by an account holder for credit of his account and drawn on another local branch of the same bank are realised expeditiously. The question of admitting non-scheduled banks as full-fledged members of clearing houses as also liberalising the clearing house rules regarding the number of instruments and banks, the terms and conditions of membership, etc., should also be examined by the Reserve Bank of India and the State Bank of India.

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[1] Pendharkar, V. G. "Cheque Clearances and Bank Debits, 1951 — 1968 — Some Interesting Features", *Economic and Political Weekly*, February 14, 1970.

11.31 Banks should take steps to dispense gradually with the Outward Clearing Register after educating the customers to note correctly the details, now entered in the register, on the reverse of the pay-in-slips. Further, the cheques and pay-in-slips may be appropriately numbered and the numbers of the accounts to which credits are being given may be recorded on the reverse of the cheques to facilitate tracing of credits and debits and matching them at a later stage. The banks having a larger number of branches in big cities may also consider the feasibility of introducing the system of sending officials attached to the main office to other branches in the city for collecting the day's clearing to obviate the necessity of each branch sending a representative to the main office for the purpose. As suggested earlier, cheque sorting machines should be used at major branches of banks for expediting clearing work and minimising the occurrence of clearing differences.

Collection of Outstation Cheques, Bills and Other Instruments

11.32 The most frequent complaint against banks relates to the delay in collection of outstation cheques and bills and prompt return thereof in case of non-payment. The main reasons for the delay are : (*i*) time taken in transit, (*ii*) defective procedures, and (*iii*) inefficient working of departments handling bills and receipt and despatch of dak. In order to reduce the time involved in transit (particularly in respect of those instruments which are required to be sent by registered post), the Indian Banks' Association has introduced a 'Courier Service' for transmitting clearing and non-clearing instruments, other valuable documents and remittance advices by night air-mail. The service is designed to cover the metropolitan cities in the first instance. It is necessary that expeditious steps are taken for extension of the courier service to cover all important trade centres in the country connected by air ; the Government should render such help, as many be necessary, in resolving the legal and technical difficulties which might arise.

11.33 In order to avoid inconvenience to customers and as a measure of self-discipline, banks should issue instructions to their branches that the cheques and drafts sent by them to outstation branches for collection should be considered as realised and proceeds credited to the customers' accounts if they are not returned unpaid or information regarding their dishonour is not received from the collecting branches within specified periods. The time specified may be seven clear working days in regard to the cheques and drafts sent through 'Courier Service' and ten clear working days in other cases. In order to minimise the risk involved, non-payment advices may be sent through the 'Courier Service' where possible, and in the case of instruments for large amounts non-payment may also be advised by telegram/telex. The intention in making the above recommendation is that a customer should not be made to suffer for any unreasonable delay on the part of the forwarding or the collecting branch.

11.34 Banks may also progressively adopt the system of purchase or discount of cheques and bills in replacement of the collection system. At large towns where the collection business is sizeable, they may consider opening 'collection branches' in suitable localities exclusively for this business. To bring about an improvement in procedures, a suitable manifold system should be introduced by banks, which have not so far adopted it, for outward and inward bills for collection so as to avoid duplication of work involved in writing the same particulars in the bills registers, covering schedules, advices to parties, etc.

11.35 The Despatch Department should work, where necessary, on a shift basis so that covering schedules of bills, realisation advices, etc., which are ready for despatch in the afternoon can be sorted out and sent in the evening on the same day. The documents to be sent by registered post should be positively despatched at least on the next day. Branches doing sizeable business, should use addressograph, auto-weigh and franking machines in order to save the time involved in manual work. The particulars of inward bills, cheques, etc., received for collection need not be entered in the Dak Receipt Register. After the covering schedules and the attached documents are sorted by the official receiving the dak, they should be handed over against acknowledgement to the official of the Bills Department or Deposit Accounts Department by entering their total number in a pass book.

11.36 Apart from the above measures, the toning up of the Bills and Despatch Departments so as to eliminate the errors in preparing covering schedules, realisation advices, writing the addresses, etc., will go a long way in minimising complaints and rendering expeditious and satisfactory service to customers. Banks may also discontinue the practice of passing contra entries daily in the books in respect of bills under collection. Control over the outstanding bills can be exercised by keeping them in the joint custody of two officers. At the year end, the amounts of all outstanding outward bills and such of the inward bills as are received for collection from other banks and directly from parties may be totalled and shown in the balance sheet under the prescribed contra heads.

Remittances

11.37 The instruments for transfer of funds through banks are mainly drafts, mail transfers, telegraphic transfers and travellers cheques, of which drafts are by far the most popular. The procedure requiring joint signatures on drafts for small amounts entails delay in their issue and consequent inconvenience to the customers. First line supervisors, who are normally promoted to that position after adequate experience in the capacity of a clerk or a trainee officer, should, therefore, be authorised to sign drafts singly at least up to Rs. 5,000. Further, the introduction of manifold draft requisition form, with a carbon attached, is likely to reduce the waiting time of

customers. Under this procedure, the work of receiving in cash the amount of the draft and the commission as also that of writing the draft can be carried out simultaneously with the help of the original and carbon copies of the draft requisition form. The only precaution that may have to be taken is that the supervisor should not sign and release the draft until the cash receipted copy of the requisition form has been received by him.

11.38 In order to popularise the drafts as a mode of remittances and also to inculcate the cheque habit amongst the public, it is necessary to dispense with the formality of identification in respect of instruments for small amounts, except in cases where there are reasonable grounds to suspect that the presenter is not entitled to receive payment. This matter is being further considered by the Commission's Study Group on Legislation Affecting Banking.[1]

11.39 The delays involved in mail transfers are mostly due to the negligence in preparing and dispatching promptly and correctly the relative advices while those in respect of telegraphic transfers are caused by incorrect computation of check signals or mutilation of the messages in the course of transmission. The remedy in these cases lies in toning up the general administration and assigning proper priorities for different types of work.

Inter-Bank Credit Transfer System (Bank Giro)

11.40 The inter-bank transactions relating to the drawing of drafts, collection of bills and encashment of travellers cheques are governed by the reciprocal arrangements entered into by various banks with each other but the terms of these arrangements differ widely. There is a need for bringing about uniformity in this regard by arriving at a suitable arrangement which should cover both the National Banks and the banks in the private sector.

11.41 For facilitating transfer of funds, the question of introducing a Giro system also deserves consideration. The postal Giro has proved successful in several European countries where it found favour with small businessmen and wage earners whom the commercial banks had not tried to approach since the accounts of such persons were considered by them as a liability. The introduction of postal Giro may not, however, be of much special advantage in Indian conditions as small depositors are welcomed by commercial banks which have made liberal rules for acceptance and payment of money; they also allow facility of collection of cheques to the depositors holding savings bank accounts. A bank Giro should, therefore, be established by the banks, with mutual collaboration, as an independent institution, to clear inter-bank credit transactions relating to transfer of funds from one bank account to another and also remittance of funds by a non-account holder to an account holder and *vice versa*. In order to be able to handle the work expeditiously the Giro should be adequately equipped with

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[1] See paragraph 21·44 of Chapter 21.

accounting machines. In the first instance, the agency may cover transactions within the metropolitan cities of Bombay, Calcutta, Delhi and Madras and in between these cities and later, when the scheme becomes successful, widen its operations to cover other cities. The agency may also undertake issue of travellers cheques and drafts.

11.42 The proposed bank Giro will have several advantages. The transfer of funds will be prompt as a mechanised accounting system will process these transactions. The collection of bills by the public utility concerns and other establishments which cater to the needs of a larger number of consumers will be facilitated. Pressure on the clearing houses will be considerably less as the use of cheques for settlement of transactions will be reduced. Similarly, the volume of cheque collections in between the metropolitan cities will be considerably reduced. The mail order business, which has not adequately developed in India, may get a fillip by facilitating transfer of funds from one centre to another. The bank Giro may also be able to reduce the charges levied at present by the banks for remittance of funds as the mechanised and centralised accounting system is expected to reduce costs. The broad framework of the proposed bank Giro is outlined in Annexure VI to the Report of the Group.

Study Conducted by the Vaikunth Mehta National Institute of Co-operative Management

11.43 As stated earlier, a study of the procedures and accounts relating to co-operative banks was conducted by the Vaikunth Mehta National Institute of Co-operative Management. An official of the Institute visited two apex co-operative banks, two district central co-operative banks, two urban co-operative banks and one of the branches of the State Bank of India for the purpose. The suggestions made in the report received from the Institute comprise mainly the introduction of the teller system, non-insistence on identification of payee in the case of drafts for small amounts, air lifting of outstation cheques to ensure their quick collection, extension of clearing house facilities, use of adding machines and other mechanical aids, use of regional languages and generally for revising the rules and regulations in respect of various deposit accounts as well as the accounting and internal audit systems in line with those prevalent in commercial banks.

11.44 The recommendations made by the Commission in the foregoing paragraphs in regard to the operating methods and procedures of commercial banks for servicing of deposit accounts, for collection of bills and for remittances apply also to co-operative banks. As a measure for intensifying their efforts for deposit mobilisation, it is necessary for co-operative banks to modernise their procedures and for this purpose, a comprehensive scheme should be drawn up by the Reserve Bank of India for on-the-job training of co-operative banks' personnel at various levels in commercial banks. In

turn, the members of the staff in commercial banks dealing with agricultural finance may also receive training in co-operative banks and training institutes in order to acquaint themselves with the procedures adopted by these banks.

II. CREDIT PROCEDURES

11.45 The process of grant of credit by banks comprises filling in the application form by the borrower, scrutiny of the particulars furnished by him in the application, assessment of his creditworthiness, sanction of limits either by the branch agent or by higher authorities on his recommendation and follow-up action on the advances after they have been availed of by the borrower. Suggestions for simplification of procedures and operating methods involved in the above process, with a view to facilitating grant of timely and adequate credit particularly to priority sectors and small borrowers, have been made in the succeeding paragraphs.

Application Form

11.46 There is a general complaint from small borrowers that banks ask too much information from them and the application form is usually complicated and lengthy which they find difficult to fill in. For the convenience of such borrowers, the form may be bifurcated into two parts :

(*i*) application form to be filled in and signed by the borrower containing essential information of a simple nature relating to himself and his credit requirements, and

(*ii*) interview form in which additional information obtained by questioning the applicant and perusing his books of account and other relevant papers may be recorded by the bank's officer.

While the application form may be common for all small advances, separate interview forms may be prescribed for different types of borrowers such as small scale industries, agriculturists, road transport operators, service unit owners, retail traders, etc.

Credit Reports

11.47 The grant of credit is a business which involves a risk of incurring bad debts if proper care is not taken and banks, therefore, ascertain the creditworthiness of borrowers from time to time and maintain credit reports on them. Before making the finance available, they are also expected to ensure that the borrowers are properly introduced and to satisfy themselves regarding the purpose of the advance. Considering the large increase in the number of borrowers during recent years, the work of maintaining credit reports on each and every borrower has become laborious and costly. To reduce this work to some extent, the Commission makes the following suggestions :

(*i*) The risk involved in advances granted against readily realisable securities with adequate margins is negligible and, therefore, detailed credit reports on borrowers who have been sanctioned the following types of advances need not be maintained :

(*a*) advances against deposits with the bank and surrender value of life insurance policies ;

(*b*) advances up to Rs. 5 lakhs against Government and other trustee securities ;

(*c*) advances up to Rs. 50,000 against readily marketable shares and debentures ;

(*d*) secured advances to agriculturists up to Rs. 10,000, to small scale industries up to Rs. 25,000 and to other small borrowers up to Rs. 10,000.

Credit reports on customers who have been granted temporary overdrafts for small amounts under the discretionary powers of the branch agent need not also be maintained.

(*ii*) At the time of renewal of an advance, a fresh credit report should be prepared only if there have been any significant changes in the means and standing of the borrower. In other cases, a remark should merely be recorded on the earlier credit report stating that the information has been verified and the party's position substantially remains unchanged or briefly indicating the minor changes that have occurred. A suitable remark to the same effect should also be made on the renewal proposal sent to the regional office or the head office. However, a fresh credit report should be prepared at least once in two years.

(*iii*) Branches should not be required to send copies of credit reports to the head office or the regional office on borrowers to whom advances have been sanctioned under the agent's discretionary powers.

Credit Intelligence Bureau

11.48 In countries like the U.K. and the U.S.A., commercial banks rely to a large extent on the reports and data supplied by reputed credit investigation agencies which specialise in collecting and disseminating credit information on individuals, partnerships, corporations, etc. While replying to questions relating to collection of credit information on borrowers in the questionnaire issued by the Banking Commission, a number of banks have favoured the formation of a Credit Bureau for collection and dissemination of credit information. Under Indian conditions, establishment of a private agency of this type would appear to be difficult. It is, therefore, necessary to create a separate organisation which could be named as Credit Intelligence

Bureau as a statutory corporation for compiling and furnishing credit information to various financial institutions in the country. The Bureau should be statutorily armed to collect and disseminate the information to banks and other financial institutions. Its working should be mechanised to ensure speedy collection and supply of data. Further, for administrative convenience, it may confine its operations in the initital stages to bigger cities. Its functions would include (*i*) maintenance of trained and experienced staff to expertly analyse the financial reports, balance sheets and other information and to intelligently interpret them, (*ii*) engaging itself in constant research and study and maintaining dossiers on various parties, and (*iii*) evolving a uniform system of assessing the creditworthiness of parties by preparing a suitable form for the purpose and stipulating guidelines (including the use of quantitative technique of credit rating) for use by different channels through which the information is collected. This matter has been further dealt with later in Chapters 13 and 21.

Scrutiny of Advance Proposals

11.49 Applications for advances for large amounts, which are in excess of the discretionary power of branch agents, are referred to head office/regional office by sending the proposal in the prescribed form. Quite often, the branches do not furnish adequate information in the proposals which results in protracted correspondence and consequently delays the sanction of the advances. In order to eliminate such delays, the proposal form should, where necessary, be so revised as to contain adequate information regarding the volume and turnover of the borrower's business, sales and purchases on cash and credit basis, current assets and liabilities, extent of own resources, seasonal trends and other relevant details justifying the credit limits applied for under the different facilities.

11.50 The grant of adequate finance is essential in the interest of both the borrower and the bank and the credit facilities should, therefore, be so arranged that the cycle of business from the purchase of raw materials to the receipt of sale proceeds is not hindered for lack of finance. While assessing the credit requirements of a borrower, the branch agents should, therefore, take into consideration the borrower's requirements for different types of facilities such as those against pledge, hypothecation, bills receivable, trust receipts, unsecured, etc. The head office/regional office should also give discretion, to some extent, to the branch agent to interchange the limits according to requirements from time to time. This is particularly necessary to assist the small scale industries, as during the course of discussions, the small scale industrialists specifically brought to the notice of the Commission, the hardships faced by them in the absence of such an arrangement.

11.51 If a constituent has been borrowing from other sources for his business purposes, the bank should endeavour to persuade him to repay such

borrowings and deal exclusively with it for all his credit requirements. If necessary, finance to repay existing borrowings from other sources should be made available provided such borrowings were availed of for business purposes. This will assist the bank in verifying the end use of funds and also minimise the possibility of use of funds for anti-social purposes such as speculation, interlocking, overtrading, hoarding, etc. The borrowers should, however, have freedom to shift their entire dealings from one bank to another. Where the requirements of a borrower are large, the principle of 'one bank one borrower' may also be modified by a consortium of banks entering into participation arrangements or by mutual arrangement between banks. Borrowings from more than one institution may also be allowed in reasonable circumstances, *e.g.*, in the case of advances availed of from term-financing institutions, factories of the same concern situated at different places, etc.

Supervision of Advances

11.52 Apart from the usual follow-up action at the branch level consisting of the periodical scrutiny of operations in the account, verification of the security, its valuation, insurance cover, etc. and the examination of stock statements submitted by the borrowers, the Agent and/or other senior officials at the branch should pay frequent visits to the place of business of the borrowers accommodated for manufacturing, production or trading activities, for discussion with them on matters such as trend of business, difficultie encountered and devising measures to solve them. In order to ascertain the end use of funds, the officials, during their visits, should try to test check whether large drawings made from the accounts were for genuine business purposes, whether the inflow of cash in the business was regularly deposited in the account and whether the production and marketing activities of the concern have been running smoothly.

Financing of Agriculture

11.53 The recommendations of the Commission regarding co-ordination between co-operative banks and commercial banks in the field of agricultural advances as also those for creation of rural banks and routing of finance by commercial banks through primary co-operative societies or rural banks, have been made in Chapters 8 and 9. Where, however, direct finance for agriculture is made available by commercial banks, the guidelines indicated in the succeeding paragraphs would be useful.

11.54 Branch Agents should be in a position to appraise the credit needs of farmers on a realistic basis in order to use the discretionary powers vested in them to sanction advances properly. Regional offices of banks should, therefore, issue instructions to branches in their respective areas indicating the scale of finance applicable to different types of crops by collecting information on cropping patterns, costs of agricultural inputs, labour charges and other agricultural operations as well as storage and marketing facilities.

The information may be collected from the studies already made by other institutions and by consulting officials of Co-operation and Agriculture Departments, Extension Officers and Zilla Parishad Officers. Where necessary, banks should also consider financing further studies by local universities, colleges or other expert bodies.

11.55 The finance to small agriculturists for crop loans should be made available by granting to them fixed loans rather than by sanctioning cash credit or overdraft limits in their favour. In order to avoid misutilisation of funds by the borrowers, the advances sanctioned to the farmers should be disbursed in instalments in accordance with their needs for various agricultural operations. The number of instalments should not, however, be too many (generally not exceeding three) as the agriculturist is busy during the season and he would find it difficult to visit the bank often to collect the loan instalments.

11.56 As far as possible, banks should disburse credit by making direct payments to the suppliers of inputs taking care to see that finance in respect of a particular input is commensurate with the requirements of the farmer. To avoid misuse of the facility, any instance of wrongful utilisation which comes to notice during the scrutiny of roving officers or branch officials or as a result of investigation of complaints received should be strictly dealt with by taking appropriate action against the relative supplier and/or the borrower.

11.57 Expeditious steps should be taken, in the light of the suggestions made by the 'Expert Group on State Enactnments Having a Bearing on Commercial Banks Lending to Agriculture', to ensure that these banks are not made to suffer from any direct or indirect legal disabilities which co-operative banks are not subjected to and also to ensure that all the privileges and concessions enjoyed by those banks are extended to commercial banks.[1]

11.58 Frequent visits should be paid to the farms by the branch officials as well as by the officers attached to the agricultural cells at regional offices. The purpose of the visit should be to ascertain the progress of cultivation, verification of security charged to the bank and of implements purchased with the use of the bank's finance and to find out whether the finance already granted has been properly utilised as also to assess the quantum of finance needed for further agricultural operations. The branch agent should, as far as possible, ensure that such verification has been carried out before making available to the borrowers further drawings from their accounts in accordance with the phased programme for grant of credit. The branch officials should also keep a watch on the marketing arrangements made by the farmer for disposal of his goods in order to ensure that the advance is repaid when the crop, for raising of which finance was made available by the bank, is sold by him.

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[1] Also see paragraph 21·50 of Chapter 21.

11.59 In order to ensure proper supervision over the credit, it is also necessary that the branch offices should be within a reasonable distance of the farms of borrowers so that the officials are in a position to periodically visit them. Commercial banks will find it difficult to serve areas larger than about 15 to 20 kilometers from the branch. The extent of the area served should depend upon the nature of available communication and conveyance facilities. Larger areas may have to be served in suitable cases, particularly in respect of underbanked regions until banking facilities are adequately spread out.

11.60 To get over the difficulties experienced by banks in regard to the availability of staff at the village level, local persons with requisite minimum qualifications should be recruited as far as possible. Further, to the extent possible, part-time, temporary or seasonal staff may be employed at the rural branches.

11.61 To provide convenience to the villagers who are busy in the fields during the day time, branches of banks at rural and *mandi*[1] centres should be kept open in the evening, if necessary by suitably reducing the working hours in the day time. The extension of the facility of mobile banks can also be helpful in this regard.

Financing of Small Scale Industries

11.62 While assessing the credit needs of small scale industries and stipulating the terms and conditions for advances to them, it is necessary to keep in mind that these industries require special treatment in view of their low capital base, inability to obtain sufficient credit from the suppliers of their raw materials and the necessity to afford sizeable credit to the purchasers of their products in order to promote their sales. It should be ensured that all their genuine credit needs are provided for so that they are not forced to approach non-institutional lenders even for their temporary requirements.

11.63 The terms and conditions usually prescribed by banks in the case of advances to medium sized and large scale industries should be relaxed suitably while considering the limits in favour of deserving small scale industries. For instance, hypothecation advances or *mandi* type advances should be granted to them in place of factory type advances, release of pledged goods should be permitted against trust receipts, low margins should be prescribed on the basis of the ability of the borrowing concerns to provide them and valuation of goods should be made on a realistic basis taking into consideration not only their purchase price but also the sales tax, excise duties, etc., paid on them. Further, the various limits granted to them should, in suitable cases, be consolidated in a smaller number of limits as multiplicity of limits causes hardships when there are seasonal variations in business.

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[1] A market.

11.64 Financial guarantees to a reasonable extent should also be given on behalf of small scale industries to enable them to secure contracts for supply of goods, carry out the works undertaken, etc. Further, whenever necessary, clean accommodation should be provided to enable them to tide over temporary liquidity problems arising out of payment of income-tax, workers' wages, etc., or to facilitate movement of goods.

11.65 In regard to working capital advances to small scale industries, technical reports from consultancy firms or institutions need not be insisted upon as a matter of course, as such insistence delays the disbursal of credit. It should be possible for branch agents in most cases to judge the requirements of the borrower, with the assistance, wherever necessary, of the technical staff attached to the specialised cells at regional offices.

11.66 The mortgage of immovable property and hypothecation of machinery should not also be insisted upon as collateral security for working capital advances except where it is considered essential, as it is desirable to leave the land, buildings and machinery free to enable the borrower to obtain term-finance for renovation, modernisation or expansion of projects, of course, with the prior knowledge of the financing bank.

11.67 In view of the fact that finance on liberal terms and conditions is required to be granted to small scale industries, adequate supervision over their working is essential. Visits to the factories of the borrowing concerns should be paid by the branch officials at least once a month and, besides, the technical staff at the regional offices should visit the factories at periodical intervals. As the Agents or the Accountants of branches having a large number of small scale industries' accounts will not have sufficient time at their disposal to pay monthly visits, banks should appoint supervisors for the purpose at such branches.

11.68. For giving advice and guidance on technical and financial matters to small scale industries, multi-service agencies should be set up on the lines suggested in Chapter 7 of the Report. As will be seen from paragraph 12.32 of Chapter 12, the cost of servicing advances to small scale industries is quite high and banks should not, therefore, be burdened with the responsibility of making technical services available to the borrowers which would considerably add to the cost. Further, the range of technical services needed would be very extensive requiring expertise on several subjects, and obviously it will be rather expensive for individual banks to employ qualified persons in several industrial disciplines, particularly as it may not be feasible to keep many of the technical personnel fully engaged in the absence of continuous flow of work. It is for this reason that the small scale industries should be required to take the help of specialised agencies for technical advice rather than banks themselves undertaking this responsibility. It is no doubt true that banks engage some technical staff for appraising loan proposals received

from industries and for post-sanction supervision of advances. But even such staff should not be required to give technical advice to borrowers, whose accounts they are expected to supervise, as these two functions may not be complementary to each other.

Financing of Exports

11.69 During recent years, commercial banks in India have been quite active in rendering financial assistance to exporters by providing both pre-shipment and post-shipment finance by way of packing credits and discount of bills and also by allowing credit against duty drawbacks and subsidies. The suggestions made in the succeeding paragraphs would be useful for further improving the banks' services in this regard.

11.70 It is observed that banks generally have Foreign Exchange Departments only at metropolitan centres and a few port towns. The number of centres where banks provide intensive export finance facilities are thus limited and should, therefore, be increased. Further, in order to provide facilities to the customers and guidance to the branch agents, banks should post at least one officer with adequate knowledge of foreign exchange procedures at the regional offices which do not have full-fledged Foreign Exchange Departments. These officers should, whenever necessary, visit the branches within the region for guiding the agents and other staff in handling foreign exchange business as well as for attending to developmental activities and for giving assistance to the customers in respect of their foreign trade problems.

11.71 Whenever documents drawn under a letter of credit tendered by the exporter for discounting are sent by an inland branch to a branch authorised to transact foreign exchange business, the former branch should obtain indemnity from the exporter against any discrepancies in order to avoid protracted correspondence between the two branches.

11.72 To eliminate the delay involved in sending bills of exchange to stamp office for being stamped before execution, banks should be allowed to stock stamps and instal special franking machines in large offices, if necessary, by amending the Stamp Acts suitably.

11.73 As regards the quantum of finance provided to an exporter, the question of granting liberal clean packing credit facilities in deserving cases should be considered by banks depending upon his creditworthiness, his past dealings and past export performance. As soon as the exporter receives a firm order and/or letter of credit, a certain percentage of the value of the order could be made available to him for purchasing raw materials, for incurring processing costs, etc., and at a later date hypothecation of the relative goods could be effected so as to make the advance secured.

11.74 The foreign exchange markets are somewhat separated due mainly to lack of communication facilities. This gives rise to situations in some banks where one branch of a bank has to sell in the market to cover its overbought position in a currency while at the same time another branch of the same bank has to buy from the market to cover its oversold position in the same currency, which involves payment of brokerage at both the centres. It will be possible to avoid such situations by centralising the foreign exchange positions of banks where such a procedure is not already being followed.

11.75 The Workshop on Financing Exports organised by the National Institute of Bank Management has suggested setting up of an Inter-Bank Export Information Centre to collect and disseminate uptodate export information which would be of general and practical interest to all banks. According to this suggestion, the functions of the centre would be to prepare export information in a suitable form consisting, *inter alia,* of the export opportunities of various types of commodities to different countries, customs and exchange control regulations in these countries and export regulations and procedures in India ; the centre would furnish information to Export Departments of banks from where it would flow to the branches ; the advantages of the centre would be to avoid duplication of data collection and thereby reduce the total cost to the banking industry and also to assist small exporters who have neither contacts nor financial means to explore foreign markets. As recommended in paragraph 16.23 of Chapter 16, the Commission considers that creation of a separate centre as suggested by the Workshop is not necessary as the Industrial Development Bank of India (which has already done some work in this sphere) would be in a position to obtain information regarding export opportunities as also exchange control and customs regulations in different countries, to keep it up to date and make it available to commercial banks and others on request. The Commission further recommends that the Indian Institute of Foreign Trade should be strengthened for rendering better assistance to small exporters in exploring foreign markets.

Financing of Other Small Borrowers

11.76 The security for the advances to artisans, small traders, proprietors of servicing units, etc., usually comprises hypothecation of goods purchased by borrowers with the help of bank finance. In respect of advances against hypothecation to companies, banks are protected by virtue of statutory provision for registration of their charge with the Registrar of Companies. However, in regard to other categories of borrowers, *i.e.,* firms, individuals, etc., there is no provision for registration of charge. The feasibility of creating a suitable machinery for registration of charge on movables, with a simple and inexpensive procedure for its verification, should, therefore, be examined from legal as well as practical angles.[1]

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[1] Also see paragraph 21·51 of Chapter 21.

11.77 It is also observed that the practice followed by some of the branch managers of insisting upon, as a matter of course, third party guarantees for clean advances often deprives the needy and deserving small borrowers from obtaining adequate finance. Banks may, therefore, insist upon guarantees of third parties only when there are reasonable doubts about the repaying capacity of the borrower.

11.78 While sanctioning advances to small borrowers, one of the conditions usually stipulated by banks relates to deposit of daily cash collections by way of sale proceeds, etc., in the relative accounts. To provide convenience to such customers and also to retail traders, etc., banks should introduce night safe facility at suitable centres. This would enable the customers to deposit their daily cash collections in the night safe for credit to their accounts on the following day.

11.79 As regards supervision of advances, branch officials should pay a visit to the borrowers' places of business, even in cases where only clean advances have been granted, at least once a quarter, in order to keep a constant watch on the condition of their business. It should also be ensured that the formalities prescribed regarding the submission of stock statements, maintenance of stock registers, etc., do not become irksome to small borrowers who are not in a position to maintain adequate staff for the purpose.

III. Internal Control Systems

11.80 The two main instruments used by banks for exercising supervision and control over the branches are internal audit and inspection and scrutiny of periodical returns obtained from them. A proper inter-branch accounting system has also assumed greater importance in the context of large scale geographical expansion by banks. These three aspects of bank operations are dealt with in this section.

Inter-Branch Accounts

11.81 Of the three systems followed by banks for accounting inter-branch transactions, *viz.*, mutual accounting system, centralised-cum-regional accounting system, and centralised accounting system, the last named system appears to be the most suitable as, besides ensuring effective control, it is also more amenable to mechanisation. However, inter-branch transactions between branches situated in the same city may be passed through the accounts maintained by them with the local main office instead of through the head office account.

11.82 In order to avoid passing of incorrect entries at the responding branch, the originating branch should take care to ensure that the covering schedules, draft or mail transfer advices, realisation advices in respect of

bills sent for collection and daily statements of head office account are neat, clear and accurate and are despatched promptly. Further, to eliminate the confusion caused by the similarity in names, code numbers should be allotted to branches which should be required to write the number, in addition to the name of the branch, on all advices, daily statements of head office account, remittance schedules, etc.

11.83 The number of entries in inter-branch account can be reduced considerably by passing consolidated debit and credit entries in respect of each branch according to the categories of transactions instead of passing separate entries for each draft issued or each bill realised or for other similar transactions. Further, in order to facilitate matching of entries at the Central Accounts Section, daily transactions relating to inter-branch account should be grouped at branches under specified categories, *e.g.*,

	Credit		*Debit*
1.	Drafts issued on branches	1A.	Draft advices received from branches
2	Mail transfers issued on branches	2A.	Mail transfers received from branches
3.	Telegraphic transfers issued on branches	3A.	Telegraphic transfers received from branches
4.	Bills received for collection realised	4A.	Bills sent for collection realised
5.	Transactions with head office/ regional office	5A.	Transactions with head office/ regional office
6.	Other transactions	6A.	Other transactions.

Schedules of different colours should be prepared by branches for each category of entries, using the same colour for schedules of debit and credit transactions of similar type. The schedules should be sent to head office together with the statement of head office account which should contain totals of debit and credit entries detailed in the schedules, besides the opening and closing balances. This procedure will facilitate matching of originating and responding entries as the transactions of similar type will be reported in the schedules of the same distinctive colour.

11.84 To avoid protracted correspondence and disputes, the telegram and postage charges, etc., in connection with collection of bills should be borne by the branch which actually incurs them instead of debiting them to the branch from which the bill was received for collection.

11.85 Delays in tracing of unmatched entries and their follow-up with the concerned branches are potentially dangerous and several frauds

have been perpetrated in banks by manipulation in inter-branch accounts. The branches should be required to explain suitably the reasons for which originating debit entries and reversal entries have been passed by them by giving necessary remarks while reporting them to the Central Accounts Section in the daily statements. The latter should examine these entries carefully. Considering the enormous growth in the volume of inter-branch transactions during recent years, banks having a large number of branches should make use of electronic computers for accounting and reconciling them. The outstanding entries should be promptly followed up and reasons for their remaining outstanding should be ascertained. In order to get a prompt response, the form used by the Central Accouts Section for obtaining comments of a branch in respect of long outstanding entries, besides detailing the particulars of relative entries, should contain alternative replies expected from the branch in the lower portion separated by perforation. The long outstanding entries for large amounts, say above Rs. 10,000, should be immediately brought to the notice of a senior executive who should decide whether any special probe is necessary in regard to any particular transaction. During the course of his audit of a branch, the internal auditor should make a test check of the entries in the inter-branch account on a random sampling basis and a complete scrutiny of the long outstanding entries on the basis of the correspondence of the head office with the branch in this regard. He should pay particular attention to the reversal and originating debit entries. It may also be useful in the case of banks having a large number of branches to select a few branches, on the basis of a properly devised sample, for examination of all transactions in the account pertaining to, say, a week or a fortnight.

Audit and Inspection

11.86 For the purpose of exercising an effective control over the working of the branches, proper attention has to be paid to the organisation of the Audit and Inspection Department, selection of inspection staff, preparation of reports and follow-up action on them. In this connection the following guidelines are suggested for adoption by banks with suitable modifications to suit their individual circumstances.

(*a*) *Audit and Inspection Staff*

11.87 The inspection staff of banks should normally consist of Internal Auditors, Branch Inspectors and Godown Inspectors. The duties of Internal Auditors mainly relate to physical verification of cash and other valuables owned by or charged to the bank as security, examination of books of account in order to see whether they are properly maintained, checked and balanced and scrutiny of the business of the branch to see whether it is being conducted in accordance with the instructions issued by the head office from time to time. Branch Inspectors have, *inter alia*, to make a qualitative scrutiny of

the advances portfolio, examine the profit earning capacity, lay out and security arrangements as also adequacy, proper utilisation and efficiency of the staff. They have to assess critically the standard of customer service rendered by the branch, use of discretionary powers by the branch officials and effective observance of the procedures laid down and instructions issued by the head office as also the directives and guidelines issued by the Reserve Bank of India and other authorities. Godown Inspectors have to conduct verification of stocks pledged or hypothecated to the bank.

11.88 In view of the nature of their duties, Internal Auditors should have a thorough knowledge of the procedures and at least five years' experience of handling different types of work in responsible capacities. Banks should institute suitable recruitment policies and training programmes to achieve this objective. Branch Inspectors should be senior and experienced enough to be in a position to comment critically on and assess the quality of business conducted by the branch officials.

11.89 Small banks may, however, find it inconvenient to maintain inspection staff of the three categories and, therefore, the Branch Inspectors appointed by them may also carry out internal audit and godown inspection.

(b) Organisation of the Audit and Inspection Department and Formulation of Inspection Programme

11.90 The Audit and Inspection Department should be directly responsible to the Chief Executive Officer of the bank. For the sake of convenience and in the interest of economy, members of the inspection staff may be posted at different regional offices but they should be under the direct administrative charge of the head office and the regional managers should have no control over their promotions, transfers, increments, leave, etc., during the period they are entrusted with inspection duty. This arrangement will remove an inhibiting factor which hampers expression of free and frank comments on their part and will facilitate factual reporting of irregularities noticed by them. Further, to the extent possible, the officials who were previously working in a particular region should not be asked to carry out inspection of branches situated in the same region.

11.91 The internal audit and inspection should ordinarily be conducted once every year on a surprise basis. The verification of stocks pledged or hypothecated to the bank (which should also be on a surprise basis) should be carried out once in each quarter. One of the quarterly visits of the Godown Inspector should synchronize with the annual audit or inspection. While drawing up the inspection programme it should be ensured that an official does not visit the same branch consecutively. To facilitate chalking of inspection programme, cards for each branch containing history of previous inspections may be maintained by the Audit and Inspection Department.

The cards should be arranged in a chronological order on the basis of the dates of last inspections. As far as possible, the inspection should be taken up when the internal audit is nearing completion or soon after its completion. This procedure will ensure that the findings of the Internal Auditor are available to the Branch Inspector who need not waste his time in examining the routine items. However, in the case of large branches, the audit and inspection may be taken up simultaneously and one or more Internal Auditors may be deputed to assist the Branch Inspector. Continued presence of inspection staff at a branch for a long time disturbs its day-to-day working and, therefore, the size of the team should be sufficiently large so as to complete the audit and inspection expeditiously. In this context it would be desirable for banks to carry out concurrent audit of their large offices in metropolitan cities.

(*c*) *Conduct of Audit and Inspection and Preparation of the Reports*

11.92 Branch inspection should not merely be a routine check of the books and records of the branch but an intelligent examination of the assets and liabilities and overall review of the branch's working. Apart from the examination of various assets and liabilities of a branch outstanding at the time of audit, a test check of some of the transactions effected since the date of last audit on random sampling basis and a percentage check (say 5 to 10 per cent) of the account opening forms, specimen signature cards, notings in respect of cheque books issued, recording of stop payment instructions, compliance with standing instructions, etc., should be made by the Internal Auditor. As regards the advances to agriculturists the Internal Auditors may examine documents, operations, etc., in all accounts but in view of the large number of such accounts, the verification of securities may be restricted to selected accounts on random sampling basis. It would, however, be desirable to verify all securities held in accounts which are grossly out of order or in respect of which complaints have been received. In order to ensure that audit and inspection are thorough and exhaustive, a check list on the lines of the 'Hand Book for Bank Inspectors' prepared by the Bankers Training College should be supplied to the inspection staff.

11.93 The approach of the Branch Inspector should not be merely critical but should be constructive. He should not only bring out the irregularities observed but also make suggestions for improvement in the working of the branch. He should discuss the findings of the audit and inspection with the branch officials and should arrange with the Branch Agent to have minor irregularities rectified, to the extent possible, during the course of inspection. A list of such irregularities should be supplied to the Branch Agent and a copy thereof, together with the Agent's comments, should be appended to the inspection report. Major irregularities observed in the working of the branch which require specific action, including comments on advances which are grossly out of order, should be highlighted by incorporating them in an appendix to the report. Similarly, the suggestions for improv-

ing the working of the branch should also be given in another appendix. These appendices will facilitate follow-up action at the head office level.

11.94 In order to encourage the branches to improve their working and to introduce a competitive element, the Branch Inspector should arrive at an overall assessment of the working of the branch on the basis of the findings of audit and inspection and classify it according to its standard of efficiency. To avoid personal bias and to eliminate subjective assessment, rating should be on a scientific basis. A research institution like the National Institute of Bank Management may compile a suitable scheme for this purpose for adoption by banks. Ratios for measurement of operational efficiency of branches suggested by the Study Group on Banking Costs constituted by the Banking Commission (*vide* paragraph 13.33 of Chapter 13) may be suitably taken into account for this purpose.

(*d*) *Detection of Frauds*

11.95 The inspection staff should make efforts not only to detect frauds, if any, committed by employees and/or others but also to find out laxity or loopholes in the procedures relating to accounting, checking, custody of valuables, security arrangements, etc., at the branch. As the *modus operandi* of frauds varies widely, the inspecting officer has to use his own intelligence and discretion while probing into a transaction which, *prima facie*, appears doubtful and no set or fixed rules can be laid down in this regard. However, the following aspects should be carefully looked into by the inspection staff :—

(*i*) any deviation from the accepted procedure ;

(*ii*) continuance of an employee or a set of employees at a particular desk for a long time or continuance of an officer at any particular office for a long period ;

(*iii*) any member of staff having access to or control over connected books of account or a complete transaction ;

(*iv*) persons related to each other holding important jobs at the same office ;

(*v*) laxity in checking of books and vouchers ;

(*vi*) any employee living beyond his known means or addicted to costly vices or indulging in heavy borrowings ;

(*vii*) any flaw in the observance of prescribed procedures for proper custody of important books of account, documents, unused cheque or draft forms, specimen signature cards, godown keys, etc., and

(*viii*) any impropriety in recruiting staff at the branch without careful probe into his or her antecedents, character and integrity.

(e) *Follow-up Action on Audit and Inspection Reports*

11.96 In order to enable the head office to take follow-up action as early as possible and to ensure prompt action by proper authorities on the salient features of the report, one copy of the audit report may be submitted by the Internal Auditor to the Audit and Inspection Department at the head office while another copy may be given to the branch for forwarding its comments to the head office. One copy should also be sent to the regional office. If the Internal Auditor observes any serious irregularity during the course of the audit, he should report it to the head office immediately by means of a separate communication. A copy each of the inspection report, which would contain, *inter alia,* an assessment of the working of the branch as well as efficiency of the personnel, should be sent to the regional office and to the head office but not to the branch. The head office should examine the report and take up the matters on which action is necessary with the branch and the regional office. Any serious irregularity reported to the head office by the Internal Auditor or the Branch Inspector should be immediately brought to the notice of the Chief Executive Officer of the bank, who may, if considered necessary, refer it also to the Board of Directors/Executive Committee. The irregularities should be followed up vigorously till they are rectified. At the end of each quarter, the Audit and Inspection Department should prepare a memorandum on the basis of the inspection and audit reports received during the quarter for submission to the Board of Directors, bringing out, *inter alia,* major irregularities observed and action taken or proposed to be taken to rectify them.

Common Inspection Agency for National Banks and Uniformity in their Forms and Procedures

11.97 As the major banks in the country are now in the public sector, a common agency may be created in due course, to carry out internal audit and inspection of branches of all the banks in that sector in substitution of the existing inspection departments in different banks. This will ensure expression of free and frank comments by the inspecting officers, on the affairs of the branches examined by them as the inspection staff will not have to look forward for advancement in their career to the authorities of any particular bank. After the creation of such an agency, it may be possible for the Reserve Bank of India to reduce the frequency of its own inspection and also to eliminate the audit element.

11.98 While the basic accounting system is common to all banks, there is a wide divergence in the detailed methods and procedures of various banks. With the nationalisation of the major banks, banking in India is entering into a new era of fruitful co-operation. There is thus a need for bringing about uniformity in various forms, documents, nomenclatures, terms, accounting procedures and norms used and yardsticks applied for deciding

various matters. This will ensure availability of comparable data for studying various banking problems, enable the public to expect and receive similar treatment and facilities from various banks, facilitate exchange of material information amongst banks and bring about co-ordination in rendering of banking services. Uniformity will also facilitate the work of common inspection agency suggested above. For bringing about uniformity, a thorough and exhaustive study of the existing methods and systems prevalent in the banks in India and abroad and preparation of a comprehensive book of instructions as well as a set of various forms would be necessary.

11.99 The Commission, therefore, recommends that a Committee may be appointed under the auspices of the Reserve Bank of India : (*i*) to consider in detail the question of creation of a common agency for inspection of the offices of all National Banks, and (*ii*) to formulate standard forms and procedures, keeping in view the advantages of mechanisation on a planned basis for rendering better customer service. The standardised procedures and forms should be reviewed from time to time and necessary changes made in them to ensure maximum efficiency and customer convenience.

Periodical Returns

11.100 The Commission's recommendations relating to an integrated information system for banks which would not only serve the normal needs for policy formulation, operational efficiency and evaluation performance but also provide essential information to the fiscal and monetary authorities have been made in Chapter 13. The implementation of those recommendations would, however, entail considerable time. In the meanwhile, the following guideliness relating to periodical returns may prove useful to banks.

11.101 In order to reduce the workload at the head office level of compiling and collating the data furnished by the branches, statistical returns (excepting those required to be sent by branches direct to the Reserve Bank of India) should be submitted to the regional office, which should send consolidated statements to the head office. However, where the head office has automation facilities, returns may be submitted direct to that office for consolidation and feed-back of information to the regional offices. Also, in cases where information is required for submission to the Government of India or the Reserve Bank of India urgently (*e.g.*, weekly statement under section 42 of the Reserve Bank of India Act, 1934), it may continue to be collected by head offices directly to avoid the time lag involved in its being routed through the regional offices.

11.102 Branches should not be required to submit statements of all outstanding advances (other than Uniform Balance Book returns) at frequent intervals and it will be adequate if such statements are called for once every year at the time of the annual closing. Branches should not also

normally be required to submit periodical returns giving details of advances sanctioned by the officials within their discretionary powers. The insistence on submission of such statements and the fear of accountability tend to fetter the exercise of discretionary powers by branch officials and thus defeat the very purpose for which liberalised discretionary powers are granted to them. Reduction in the number and frequency of the returns which are mainly informatory in nature will lighten the burden on the branches enabling them to bestow more attention on operational and developmental work and also reduce the scrutiny work at the head office level.

11.103 The control of head office over advances through periodical returns should relate mainly to irregular advances, the position of other advances being examined during the course of annual inspection of branches. Branches should send returns of irregular advances (including bills purchased and discounted) to the regional office and head office at monthly intervals. These returns should include advances granted by officials in excess of their discretionary powers or in excess of sanctioned limits and/or drawing power, those in respect of which instalments are in arrears and sticky or overdue advances. They should contain adequate details relating to the limit sanctioned, nature and purpose of advance, particulars of security held (*viz.*, valuation, insurance, margin maintained, etc.), nature of operations, as also the extent and period of irregularity and the steps taken or proposed to be taken to regularise the position. Separate statements of irregular advances may be prepared for different types of advances, *i.e.*, cash credits, fixed loans, overdrafts, bills purchased, etc., and sent on different dates of the month so as to stagger the work at the branch and facilitate scrutiny at the head office. As regards the advances involved in litigation, a return may be sent at quarterly intervals. In addition to the return of irregular advances, banks may have to obtain statements of a special nature, *e.g.*, those required for watching compliance with directives relating to selective credit control issued by the Reserve Bank of India, those in respect of budgetary control and cost analysis, as also other usual statements relating to sundry debtors and sundry creditors, miscellaneous expenses, cash position, etc.

11.104 The control returns should be scrutinised at the head office by the supervisory staff and, where necessary, prompt follow-up action should be taken through the regional offices. All advances indicating serious irregularities, which are likely to jeopardise the bank's interests, should be immediately brought to the notice of the top management. Internal auditors, during their visits to branches, should make test check of the statements sent to the head office and regional office in order to find out whether all relevant advances had been included in the concerned return and whether the various particulars had been mentioned therein correctly and fully. Head Office should take stringent action against the branch officials when it is brought to its notice through inspection/audit, etc., that an irregular advance had been intentionally excluded from the return of irregular advances or

where the operations in the relative account had been temporarily manipulated so as to avoid its being reported in the return.

IV Organisation and Management

11.105 The impact of the transformation in the business environment in the banking industry, as a result of growing network of branches and functional enlargement, has recently led to many organisational changes in banks in the country. Thus, at their central offices new departments have been created to deal with specialised functions and territorial zones have been formed for attending to operational matters (sanction of advance proposals, scrutiny of returns, etc.) relating to branches in the respective zones. Further, in order to achieve decentralisation, regional offices have been created in some of the banks and discretionary powers of officials at various levels have been increased. However, due to various constraints, mainly the lack of availability of trained staff and the rapid speed at which the expansion of banking has taken place during recent years, the organisational changes seem to have been made in several cases to meet the exigencies as they arose rather than on a planned and systematic basis. It is, therefore, necessary that in order to deal efficiently with the problems that have arisen from the complexity and range of their activities, banks should approach the question of reorganisation methodically, keeping in view not only the need to meet the present requirements but also to provide for adequate flexibility of the organisation to accommodate growth and rapid change. For this purpose, where necessary, banks should also consult management experts.

Departmental Set-up at Head Office

11.106 The present organisational set-up of major banks at the central office level is functional-cum-territorial though the distribution between the two categories differs from bank to bank. The functional departments have mainly been set up to deal with legal matters, foreign exchange business, branch expansion, lead banks scheme, and financing of agriculture, small scale industries and other priority sectors. However, only a few banks have set up Organisation and Methods (O. & M.), Economic and Statistics, Public Relations and Management Development Departments.

11.107 The function of the Organisation and Methods Department is to review constantly the methods and procedures as well as various forms and to make suggestions for improving them from the point of view of customer satisfaction, productivity of workers and economy. The Economic and Statistics Department has to undertake collection of statistical data and information on economic matters relevant to the bank's working, analyse and process them in order to provide a systematic flow of information to the management as an aid in formulation of policies in regard to operations, organisation, development and planning. It can also undertake surveys and studies on various matters, *e.g.*, customer preferences, business potential

of an area, cost analysis, etc. As indicated later in Chapter 13, it is also necessary that each bank should devise a system of data processing to serve both the operational requirements and the requirements in respect of information of an economic nature of the bank itself as also of the Reserve Bank and the Government. Banks should, therefore, organise and/or strengthen Organisation and Methods and Economic and Statistics Departments. If any of the small banks finds it difficult to establish a full-fledged Organisation and Methods Department in view of the cost involved, it should train one or two of its officials in O. & M. work. These officials will be able to attend to O. & M. aspects of the bank's working, in addition to other normal duties, where necessary. The heads of Organisation and Methods Department of different banks should meet periodically say once every half-year, for exchanging information regarding the studies made by them; the Reserve Bank of India may take the initiative in this matter. Further, the banks which have not so far introduced a scheme for obtaining suggestions from their employees for improving methods and procedures should do so at an early date. Apart from bringing forth good and practical suggestions, the scheme will also create a sense of participation in the employees.

11.108 Public Relations Departments may also be developed by banks for the purpose of conserving existing business, soliciting new business and for deciding upon the mode and media of publicity. The departments should organise area surveys to compile a list of prospects who could be cultivated and solicited to become customers of the bank. As regards the organisation of Management Development Department, the Commission's recommendations are given in paragraph 14.61 of Chapter 14. In view of the importance of budgetary control in developing business and improving profitability, introduction of this system by banks in India has been recommended in paragraphs 13.34 to 13.37 of Chapter 13. Apart from organising a separate department for the purpose at the head office, large banks should also create branches of this department at their circle and/or regional offices.

Regional Offices

11.109 For facilitating the control over and guidance to the branches, some of the banks have created regional offices to cover all their branches, a few have such offices for only some of their branches while others continue to exercise control over all the branches direct from the head office. The number of branches under each regional office also varies widely, the minimum being less than 10 and maximum over 150. Some of the banks have intermediate tiers between the regional offices and the branches in the form of Group or Area Managers. The powers delegated by the banks to officials at different levels also vary widely. As the location of branches far away from the head office has given rise to difficulties in regard to supervision and control and communication of decisions and instructions and as closer contact between the decision making and implementing authorities has become

essential, it is necessary for banks having a sizeable network of branches to create or reorganise regional offices. In this regard the guidelines mentioned in the following paragraphs may prove useful.

11.110 The number of branches under the jurisdiction of a regional office in the mofussil may be 25 to 50 depending upon the communication facilities, nature and volume of business conducted, contemplated expansion in the network of branches, etc. In the metropolitan areas, it may be possible for a regional office to handle a larger number of branches. The region should comprise a contiguous area, no branch being very far away from the regional office.

11.111 To ensure that regional offices do not become one more tier in the administrative set-up, they should be granted adequate powers not only for sanction of the bulk of the advances proposals emanating from branches but also in regard to administrative matters. They should be placed under the charge of experienced and capable senior officers.

11.112 Normally, there should not be an intermediate tier between the regional office and the head office. However, banks having a very large number of branches may have to create or retain local head offices with adequate powers for administrative convenience. This matter has been discussed in greater detail in Chapter 15.

11.113 Regional Offices should maintain specialised cells on functional basis with adequate trained staff for assessment of advances proposals from priority sectors and for supervision and review of advances granted to them. They should also conduct surveys, research and pilot projects for developmental activities in respect of deposit mobilisation, geographical expansion and grant of credit to priority sectors. They should further maintain a close contact with the branches and review their working periodically.

11.114 The Regional Manager should not be overburdened with routine work so that he may be able to discharge his supervisory functions effectively as also to pay visits to the branches under his charge at least once in a quarter.

11.115 In order to ensure that the regional offices are discharging their functions effectively and efficiently, the head office should arrange to carry out periodically thorough inspections of the regional offices.

Delegation of Powers

11.116 Delegation of discretionary powers to branch agents to sanction advances to small borrowers should be liberalised. The Group has suggested the following limits in this regard :—

(*i*) Agents of the rural branches may be vested with discretionary powers to sanction advances up to Rs. 3,000 per agriculturist.

(*ii*) Agents of small urban branches may be vested with discretionary powers to sanction working capital advances to small scale industries at least to the extent of Rs. 10,000 against hypothecation of stocks, Rs. 25,000 against pledge of stocks, Rs. 2,500 on clean basis and Rs. 10,000 against documentary bills.

(*iii*) Agents of small branches should be authorised to grant advances to other small borrowers, *e.g.*, artisans, professionals, self-employed persons, etc., up to at least Rs. 5,000 on secured and Rs. 2,500 on a clean basis.

(*iv*) Discretionary powers of agents of bigger branches may be fixed suitably at higher levels taking into account the type of business at the branch and the experience and ability of the concerned officials.

The limits suggested above are illustrative and may be varied by banks according to the needs of different areas in which the branches function.

11.117 While vesting discretionary powers, the head office should prescribe an overall ceiling on the total amount of credit that could be advanced at each of the branches to various categories of borrowers based on their annual plans in order to ensure equitable distribution of credit in relation to the bank's total available resources and in the context of liquidity requirements. As indicated in paragraph 11.111 above, the regional offices should have authority to sanction the bulk of the advance proposals emanating from the branches in regard to credit limits which are in excess of the discretionary powers of the agents. Delegation of authority should be reviewed at least once in two to three years and discretionary powers should be varied, if necessary, according to requirements.

11.118 The provisions of Section 292 of the Companies Act, 1956 may be suitably amended so that in the case of banking companies, the Board of Directors is enabled to authorise the Chief Executive Officer or a Committee of Directors to exercise the powers of the Board in regard to specifying the total amount up to which loans may be made by the delegates, the purposes for which the loans may be made and the maximum amount of loan which may be made for each such purpose in individual cases.

Post-sanction Scrutiny of Advances Granted by Branch Agents under their Discretionary Powers

11.119 While considering the grant of wider delegation of powers, particularly, at the rural branch agent's level, it has to be borne in mind that, due to rapid expansion of banking during recent years, persons without adequate experience had to be promoted and placed in charge of branches.

Liberalisation of powers has, therefore, to be necessarily accompanied by a system of post-sanction review and scrutiny. In view of this, a quarterly scrutiny of the advances to small borrowers granted by branch agents should be carried out by a set of roving officers attached to the functional cells at the regional offices. After some time, when the agents have gained sufficient experience, the frequency of the scrutiny may be suitably reduced. Branches should also be required to maintain a register for recording the receipt of loan applications (whether made orally or in writing) and their disposal. The roving officers should examine this register in order to find out whether there has been any undue delay or wrongful refusal of credit facilities. While in order to curb any tendency to abuse the powers vested in them exemplary punishment should be awarded to the agents who are found guilty of deliberate misuse of powers, gross negligence, dishonesty or favouritism, the agents should be protected even though an advance becomes difficult of recovery if it was granted in the normal course without *malafide* intent.

V. Miscellaneous

Forms of Import Letter of Credit and Mail Transfer Receipt

11.120 The question of standardising the form of import letter of credit may be considered by the Exchange Control Department of the Reserve Bank of India in consultation with the Foreign Exchange Dealers' Association and in keeping with the requirements of importers. It may also consider the feasibility of the suggestion that banks be allowed to send to the Reserve Bank of India copies of letters of credit opened, with a covering list indicating only their distinctive numbers and amounts, instead of the prescribed monthly statement of import letters of credit opened. The Foreign Exchange Dealers' Association may standardise the form of payment order relating to foreign mail and telegraphic transfers. The standardisation will simplify the work of listing and sorting these receipts while presenting them for collection through clearing.

Exchange Control Regulations

11.121 In order to eliminate avoidable inconvenience to customers, it is necessary to thoroughly examine the various procedures prescribed under the Exchange Control Regulations. The Commission recommends that a committee may be appointed by the Reserve Bank of India to go into this matter. There should be adequate representation on this committee of different interests, *e.g.*, authorised dealers, exporters, importers, travellers, etc.

Complaints from Public

11.122 In order to ensure expeditious and proper disposal of complaints, complaint-cum-suggestion boxes should be provided at all branches of banks

for use of the public. Further, regional managers or development officers attached to regional offices, on their visit to the branches, should spare some time to hear the grievances and suggestions of the local constituents. For this purpose, the public should be advised of the tour programme of the official concerned, by displaying a suitable announcement on the notice board indicating the date and time when he would welcome members of the public for discussion.

Premises and Layout

11.123 In very large branches difficulties arise about proper organisation and management of work and balancing of books in time. Whenever possible, banks should try to shift a portion of the work at such a branch to new premises in the same locality by opening another branch.

11.124 Adequate attention to matters such as lay out, colour scheme, construction of modern counters, pleasing lighting arrangements, decor, staff and customer amenities should be paid while planning new buildings. In some of the advanced countries, particularly in the U.S.A., construction of bank buildings has developed into a separate branch of architectural science but this aspect does not seem to have received proper attention in India as banking has not yet been fully recognised as an activity of marketing services. While designing a bank building, the problems of special categories of customers such as pensioners and women should be kept in view and discussed with the architects. For instance, the location of a counter for payment of pensions should be on the ground floor almost at the street level or to reach which it is not necessary to climb a number of steps ; in branches which are visited by a number of women customers, facilities of separate cloak rooms should be provided. The security aspect should also be borne in mind.

11.125 The problem of space for preservation of records is also bound to become more acute with the present pace of development of banking. It is therefore, suggested that the question of making a suitable legal provision permitting banks to destroy cheques, ledgers and other records after a lapse of specified periods should be examined. Banks may also consider the feasibility of micro filming important records before their destruction, taking into account the cost aspect.[1]

11.126 Proper office lay out, which ensures smooth flow of papers, is an important factor in rendering prompt service to customers. It is necessary to ensure that the work flow is speedy and the help of intermediary personnel to move papers is minimised. For preparing a 'floor plan lay out', a study of the routine at a branch or a department/section has to be made from time, motion and flow angles to determine the most direct line of pro-

[1] Also see paragraph 21·8 of Chapter 21.

gress or straight line procedure on the basis of the flow charts of each operation performed. The study will indicate the proper positions in which the employees and officers should be seated and the ledgers, machines and record should be kept, so that papers become easily accessible and the time of employees is not wasted in moving from place to place. Banks should take steps to improve the lay out in their offices in order to enhance the efficiency of the staff as also for improving the customer service after conducting studies of office routine in consultation with experts in the line.

Working of Banks on Saturdays

11.127 The time spent by employees in coming to office and going back to their residences, particularly in big cities, is not commensurate with the amount of work put in by them during office hours. The closure of banks on Saturdays is likely to relieve the staff from the necessity of working after office hours to complete the day's work. Further, such closure is not likely to put the business community to much inconvenience as, even at present, there is no special clearing for return of cheques on Saturdays. The Commission, therefore, recommends that to begin with and on an experimental basis, administrative offices of banks may remain fully closed on Saturdays and, to compensate for the loss of man-hours, the working hours on other week days should be suitably enhanced. The question of introducing similar change in the bank offices dealing with the public may be considered later. Further, wherever feasible, working hours in residential areas of urban centres may be in the mornings and evenings to suit the convenience of the clientele.

CHAPTER 12

COSTS AND CAPITAL STRUCTURE OF BANKS

INTRODUCTORY

12.1 In recent years, considerable concern has been felt by monetary authorities and bank managements in India about increasing costs and their implications for profitability of the Indian banking industry. Thus in the reports of the Reserve Bank on Trend and Progress of Banking in India for the years 1962 and 1966, there are references to the rising expenses of banks owing to the rapid expansion of branches, increase in establishment expenses resulting from the periodical awards of the Industrial Tribunals/Commissions and raising of interest rates paid by banks on deposits from the public. The problem of rising costs and their impact on profitability also became a prominent theme in the annual addresses of the Chairmen of Indian banks during the years 1967-69. Increasing cost consciousness led a number of bankers to question seriously the prevailing practice of banks of offering free services to the public indiscriminately. Even where charges were levied, several bankers felt that the schedule of charges prescribed did not fully reflect cost considerations.

12.2 The operating expenses of the Indian scheduled commercial banks have shown a rising trend over the period 1961 to 1968 (Statement 12.1 appended). Of the two important elements of the costs of commercial banks, establishment expenses which were 1.95 per cent of deposits in 1961 rose steadily to 3.18 per cent by 1968. The other important element, *viz.*, interest paid on deposits showed a period of slow increase from 2.30 per cent of deposits in 1961 to 2.74 per cent in 1964 and thereafter jumped to 3.52 per cent and 4.04 per cent respectively in 1965 and 1966 as a result of the actions of the monetary authorities in raising the interest rate structure. Other working expenses and interest paid on borrowings also showed a rising trend. Consequently, the total current operating expenses of banks have increased from 5.01 per cent of deposits in 1961 to 8.22 per cent by 1968.

12.3 In such a context, it was only natural that the Banking Commission should have been asked "to examine the cost and capital structure and to review the adequacy of available surplus and reserves, having regard to the developmental needs of the banking system and to make recommendations in the light of the findings" under its term of reference No. (*iv*). Expressing Government's views on this matter at the time of inauguration of

the Commission, the then Deputy Prime Minister, *inter alia*, emphasized the need for canalising a good part of annual available surplus of banks for adequate developmental purposes as it would really be unfortunate if improvement in methods and procedures resulted in the reduction of costs and the surplus was appropriated between capital and labour without leaving anything for the future growth of the industry. He further stated that in this context there was a need to undertake a detailed study of the costing structure of the banks in India.

12.4 A survey of the existing information on costs in the banking industry by the Commission revealed that, apart from the annual publication by the Reserve Bank (in the Statistical Tables Relating to Banks in India) of the data on the earnings, expenses, profits and allocation of profits of scheduled commercial banks, there was hardly any information of indusry-wise applicability on the subject. In particular, it was found that, barring attempts by a few banks, cost accounting had not made any progress in the banking industry in the country. The data published by the Reserve Bank, though useful from the point of view of establishing trends in the major items of income and expenditure in banks, were not suitable for the purposes of the Commission. The Commission, therefore, set up the Study Group on Banking Costs (referred to as 'the Group' in this chapter) to go into this matter.[1]

12.5 In view of the absence of the necessary material for assessing costs in the Indian banking industry, the Group organised a survey for collecting the requisite data on a representative basis. While preparing its report, the Group took into consideration the replies received to the questions relating to 'Cost Studies, Cost Control and Profitability' as also certain questions relating to 'Foreign Exchange Business' having a bearing on costs in the questionnaire issued by the Commission to commercial banks. Apart from giving a brief description of the development of methods for cost analysis abroad and in India, the Group in its report presented the results of the survey and also gave its views on the considerations that should underlie the profit-objectives of banks and on the extent and manner of using management accounting and cost control techniques in the Indian banking industry. The Group submitted its report in December 1971. The Commission's views and recommendations in this chapter are largely based on this report.

Brief Review of the Methods for Cost Analysis of Bank Services Developed in India and Abroad

12.6 Before discussing the question of evolving a suitable method for cost analysis of bank services, it will be useful to refer briefly to the work done in this field in U.S.A., U.K., Germany and India.

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1 See Appendix III for composition and terms of reference of the Study Group.

U.S.A.

12.7 Although interest in the subject of cost analysis for bank services developed in the U.S.A. in early twenties, it was only in 1940 that scientific methods were first devised. One of the early pioneers in the field was William C. Rempfer, the President of the First National Bank of Parkston, South Dakota, (U.S.A.) and the Chairman of the Bank Management Committee of the South Dakota Bankers' Association. He defined 'Bank Cost Analysis' as a method of allocating a portion of all expenses of a bank to each of the activities in order to determine the cost of each item of transactions. The American Bankers' Association followed this up by setting up separate Commissions to go into the different aspects of banking costs and publishing various booklets on the subject from time to time. In particular, a short method was developed for small banks employing less than 15 persons for determining the costs of handling each transaction based on the total number of work minutes put in by officers and employees and the cost per minute of work. This method could be elaborated into a complete method for larger banks providing a detailed analysis including per item costs, earnings from invested funds, profit or loss on each activity, etc. Great emphasis was laid on the interpretation of results, the need for comparing the results of one's own bank with those of all banks and applying the figures to get the necessary guidance in fixing service charges. The report had also recommended an operating efficiency rating system for the bank staff. Also methods were developed for analysing costs of individual departments based primarily on time study of the clerical man-hours for each operation and measurement of profitability of each one of the functions discharged by them. Individual banks have developed further the use of time study methods to reorient their supervision work, institute proper reporting systems and audit, update and maintain operating standards.

12.8 A further major development was the system of complete cost analysis and of providing an inter-bank comparison between a large group of banks, worked out by the Federal Reserve Banks of U.S.A. through their Functional Cost Analysis Programme. This programme is designed to enable banks to determine the income they earn and the expenditure they incur for discharging their various functions. The objects sought to be achieved are reasonable approximation of functional cost, year to year cost comparisons within the bank and reliable inter-bank comparisons with group averages of similar banks. The annual data produced under this programme serves as a useful guide to bank managements in their decision making and in making operating procedures more efficient.

U.K.

12.9 In the U.K., no detailed cost study system as such appears to have been developed as in the States but individual banks are understood to have done some work in this field. The report on 'Bank Charges' by the

National Board for Prices and Incomes, presented to the British Parliament in May 1967, reviewed the system followed and the level of charges for services to customers rendered by the London Clearing banks and Scottish banks in the light of their profits and dividend record. The Board examined in detail the manner in which the banks acquired resources, the uses to which these were put, the income that was generated and the associated costs therefor, and recommended ways in which the system and level of charges could be changed. One of the important points made by it was the necessity for the effective use of clerical labour ; it felt that considerable savings in clerical labour could be achieved through improved scheduling and allocation of work-loads and more suitable training of supervisors and staff. The Board also suggested more intensive O. & M. activities, mechanisation of book-keeping operations and flexibility in working hours to suit the convenience of the public.

Germany

12.10 In Germany, the 'Commission on Costing of the Federal Union for the Private Banking Industry' has developed an integrated costing and accounting system for banks. In this system, costs of bank transactions are divided into :—(*a*) work costs, and (*b*) value costs. Work costs consist of the emoluments of employees and the costs of the materials used, while the value costs mainly comprise the interest paid on funds. The work costs are allocated to the various activities on the basis of a detailed classification prepared by the Commission. The organisation of a bank is divided into cost centres and the work of an employee is classified into: (*a*) for his own cost centre, and (*b*) for other cost centres which are termed complementary cost centres. Each department is required to calculate input in minutes per day of each individual member of the staff on various activities. The total emoluments (including superannuation and other benefits) are also calculated on a per minute basis. By multiplying the work input in minutes per day by emoluments per minute, costs are first worked out for each of the activities on a per day basis and thereafter on a per year basis, for the employee's own cost centre and the complementary cost centres for which he has worked. A record of these calculations is maintained on a form, the entries in which enable a bank to calculate the personnel costs of the various outputs. The appropriate material costs are added to these for arriving at itemwise costs.

India

12.11 Only a few banks in India have attempted cost analysis of their services by adopting varying methods. Work measurement techniques were used by one bank to find out the time required for handling different items of work. Another bank collected data, relating to the time spent on handling various transactions, from the members of the staff working at the various desks in selected branches for a sample period. A totally

different approach to a part of the problem of cost analysis was made by Donald D. Hester in his book 'Indian Banks—Their Portfolio Profits and Policy.'[1] In this study, labour costs per hundred rupees of current deposits have been calculated with the help of statistical technique of multiple regression by using the data from 32 banks for the year 1959. However, there is no regular system of information on banking costs in India.

FEATURES OF THE BANKING INDUSTRY RELEVANT FROM THE POINT OF VIEW OF COSTING

12.12 The banking industry differs from other industries in several respects. The important characteristics of the banking industry are: (*i*) it is a multiproduct service industry, (*ii*) it is extremely labour intensive, (*iii*) borrowed funds form the bulk of the capital employed, and (*iv*) banks are subject to a considerable degree of control from Governmental authorities.

12.13 The primary function of the banking industry is to serve as the organiser and provider of credit. In discharging this function, banks serve as the media for organised collection of the savings of the community by way of deposits and their use, by way of investments and advances, in channels or activities considered necessary or advantageous to the community. Incidental to the discharge of this primary function, banks help transfers of liquid funds from one sector of the economy to the other and from one geographical area to another, and also serve as record-keeper to a substantial sector of the economy. The periodical statements of the operations on their accounts, which customers receive from their bankers, serve them as a dependable and ready-made record of these operations. In addition, banks provide several other useful services such as giving advice to customers and carrying out their instructions on investments of their funds, looking after trust funds, providing safe deposit vault facilities, etc.

12.14 Human skills and labour are decisive in the attainment of satisfactory levels of efficiency, productivity and profitability by banks. Human behaviour cannot be standardized into precast moulds and predicted nearly as readily or as precisely as machine process behaviour. The range of variation that must be tolerated in the output of individuals in banking has necessarily to be much wider than that from mechanical processes. A bank's output is received far more directly than in most manufacturing industries by its customers or clients so that the direct relationship between employee and customer comes into play far more in the case of banks than in most other industries. All this makes it difficult to fix rigid standards or norms of output for a number of services rendered by the banks. Also the labour intensive character of the industry results in its costing being dependent to a very large extent on the results of collective bargaining between banks and their employees.

[1] Published by the University of Bombay in 1961.

12.15 The working capital of banks mainly comprises money borrowed from the public by way of deposits or from the money market or the central bank of the country. The proportion of owned funds of banks to borrowed funds is small compared to that in other industries. The interest cost of funds thus forms an important component of the price of their major service, *viz.*, supply of credit. The 'stock-in-trade' in the case of banks is money, *i.e.*, cash, the most liquid and easily transferable of all liquid assets and, therefore, highly susceptible to loss through theft and pilferage. Banks, therefore, have to be prudent and adopt elaborate accounting and checking procedures and safety measures. Thus, the cost of prudence in banking is far greater than in most other types of industrial activity.

12.16 The control of monetary authorities takes many forms such as use of the various instruments of monetary policy to influence through market forces the cost and volume of bank credit, prescription of maxima, minima or even actual levels of interest rates for deposits and advances, and even sectional distribution of advances. Thus, both the costs and the income of banks are considerably influenced by the actions of monetary authorities.

12.17 For developing a costing system for the banking industry, it is necessary to work out as accurately as possible : (*i*) labour costs, (*ii*) other costs of the services given by banks, and (*iii*) interest cost of the funds used by them.

12.18 In computing the labour costs, the main problem is that there are a number of jobs in a bank which are connected with more than one type of service and it is difficult to allocate precisely the total labour input in the job as between the different services. Also, depending on the size and organisational structure of a banking unit, bank personnel work on more than one service during a given time period. The productivity of workers also varies from unit to unit, even for the same type of work, owing to such factors as innate ability of the person, his background and training, place and time of work, and so on.

12.19 One method of calculating the costs of the various services is to collect figures at the branch level relating to the volume of the services of different types, *i.e.*, output, and the total labour input classified into its main categories such as officer man-hours, clerical man-hours and the subordinate staff man-hours. Statistical analysis of the data yields average figures of costs per unit of each of the different services. Another method is to obtain as accurate data as possible of the time spent by the various members of staff on each of the various activities, either with the help of trained investigators or by getting the data from the members of the staff themselves. These figures can then be converted into money costs with the help of appropriate multipliers, representing the average money equivalent of an officer man-hour, clerical man-hour and so on.

12.20 Cost analysis thus involves classifying the activities and measuring the work input associated with each type of output. The activities in a bank can be classified into those that can be identified as linked wholly or largely with the particular services rendered to customers and those common to all. The former activities can be divided into five main groups, *viz.*, deposits, advances, remittances, foreign exchange and other services (such as safe deposit vaults, investment management, trustee services, etc.). Foreign exchange business comprises services which fall in the categories of advances and remittances as also the special service of buying and selling of forward exchange. It is possible, therefore, to split this group of services into the other main groups. However, on account of the highly specialised nature of foreign exchange business and the fact that only the more important branches conduct it, it is desirable to treat this group as *sui generis.* The common activities mainly relate to the work in Cash, Clearing and Accounts Departments. For the measurement of the output, two methods can be employed:

(*i*) output in terms of some non-monetary variable like the number of vouchers handled, the number of drafts issued/paid, etc., and

(*ii*) output in monetary terms, *e.g.*, outstandings of various types of deposits and advances, the total amount of drafts issued, etc.

12.21 The organisational structure of banks is also a relevant factor while applying cost analysis technique to them. Banks vary greatly in size, area of operation, complexity of organisation, composition of deposits and portfolios of investment and advances, and types of services rendered. Large banks have a multi-tier structure with a central office, regional office and branches, while small banks have a two-tier structure with a head office and branch offices. In the larger and more developed units, there are functional departments at the central and regional headquarters while in the case of small banks the organisation of the head office is comparatively simple without specialised departments. Thus, the banks having regional offices, have three layers of overhead costs, *i.e.*, at the branch level, at the regional level and at the central office level, while for the others there are only two.

Survey Conducted by the Group

12.22 A reference to the survey conducted by the Group has been made earlier in paragraph 12.5. As this survey was the first of its kind in India on an industry-wise basis, it will be worthwhile to mention here its main findings in some detail.

Scope of the Survey

12.23 The Group used different methods for collecting information in regard to different categories of banks, *viz.*, (*i*) Indian scheduled commercial banks (excluding their foreign exchange business), (*ii*) Urban co-

operative banks, (*iii*) Foreign exchange business of Indian scheduled commercial banks, and (*iv*) Apex and central co-operative banks. Non-scheduled commercial banks, foreign banks and other co-operative banks were left out of the scope of the survey for the following reasons. The aggregate business of non-scheduled commercial banks is negligible and their number is very small. Hence, their exclusion would not have any significant impact on the findings of the survey. The methods of working and the salary scales in foreign banks are different in many important respects. As such, the data about their cost structure would not be representative of the banking industry in India. As regards the co-operative banks, the land development banks were excluded because long-term financing institutions were not covered by the Commission's study and the industrial co-operative banks because their scale of operations was very small.

12.24 Normally, for a survey of this type, the data should be collected over a period of one full year so as to remove the influence, if any, of the seasonal factors. However, because of the time limit within which the Commission was required to complete its work, the Group collected information in regard to commercial banks pertaining to only one quarter, *viz.*, January-March 1970. As regards urban co-operative banks, data was obtained for only two months, *viz.*, April and May 1970. For the State and the central co-operative banks, however, information was collected so as to cover the operations for the year ending June 30, 1969.

12.25 As regards the Indian scheduled commercial banks, the Group selected a sample of 976 bank offices spread over 12[1] groups—three bank groups, each of which was divided into four population groups—of which usable returns were received from 830 branches. The data was collected from them through two sets of returns, *i.e.*, day returns pertaining to 12 specified days during the three month period and monthly returns relating to each of the three months. Apart from the branches, information was obtained from the head offices of banks whose branches came in the sample and the Reserve Bank of India.

12.26 The number of urban co-operative banks included in the sample was 24. As these banks operate on a much smaller scale as compared to the commercial banks and as their business is of a fairly simple nature, they were asked to fill up returns of a simplified type, on a monthly basis.

[1] *Bank Groups :*

I. State Bank of India and five large nationalised banks.
II. The remaining nine nationalised banks, the subsidiaries of the State Bank of India and the Andhra Bank Ltd.
III. The remaining Indian scheduled commercial banks.

Population Groups :

Centres having population (according to 1961 Census) of:

I. 10 lakhs and over
II. Between 1 lakh and 10 lakhs
III. Between 10,000 and 1 lakh
IV. Less than 10,000.

12.27 The bulk of the foreign exchange business is conducted only at a few important centres in the country and, therefore, information was called for the period January-March 1970 only from 92 branches of 25 banks, which accounted for about 80 per cent of the total foreign exchange business conducted by each of the banks. Usable returns were received from 53 branches of 12 banks.

12.28 Information was called for from all the 25 State co-operative banks and 40 central co-operative banks (out of 343 in the country). However, only the returns submitted by 13 apex banks and 21 central banks which contained complete or near complete information, could be used for the survey. The data, thus obtained, was supplemented by certain information available with the Reserve Bank of India.

12.29 The main points of the methodology used by the Group were as under :

(*i*) Units for the measurement of the different outputs of the various services rendered by banks to its customers, *i.e.*, number of vouchers, number of cheques, bills, drafts, currency notes handled, etc., were specified.

(*ii*) The work input of the various banking services was obtained by asking the branches to report the time devoted by the bank's employees to the various operations necessary in rendering the service. For each branch, the total physical and monetary outputs of the services and the corresponding inputs in terms of man-hours of the various categories of employees, including officers, were thus obtained.

(*iii*) The expenditure incurred by a branch was allocated to individual services rendered by it to its customers by converting the figures of work input of officers and clerical staff for each service into money terms. For this purpose, certain expenses of a general nature, *e.g.*, those on subordinate staff, on clearing department, despatch department, depreciation, etc., were suitably reallocated to the respective banking services.

(*iv*) The unit costs of various services were obtained by dividing the input by the corresponding outputs. The unit costs at the branch level were loaded with costs at the head office level, to arrive at total cost per unit.

(*v*) Average costs of each of the services for an average branch in each bank group and population group as also all-India averages were worked out for the purpose of comparison.

(*vi*) Figures relating to income earned on different activities at the branch level and on investments by the head offices were compared with the costs, to work out the overall profitability as also the profitability of the various categories of deposits and advances for banks of different sizes and of the branches in population centres of different sizes.

Main Findings of the Survey

A. Commercial Banks

12.30 The profile of an 'all-India average bank branch' shows deposits of Rs. 62 lakhs and advances of Rs. 42 lakhs. Out of its total expenses of Rs. 0.55 lakh for the quarter, 40 per cent is accounted for by deposits, 18 per cent by advances, 15 per cent by bills and 12 per cent by remittances while the remaining 15 per cent relate to other services. Deposits are the most clerical-oriented activity while advances are the most officer-oriented activity. The expenses at the head office common to all services work out to 8 per cent of the total cost at the branch level.

12.31 As regards the different types of deposits of an 'all-India average bank branch', the position is as under:

TABLE 12·1—SERVICING COSTS OF DEPOSITS OF AN 'ALL-INDIA AVERAGE BANK BRANCH'

Nature of deposit	*Percentage of total deposits*	*Percentage of physical output (No. of vouchers)*	*Percentage of servicing costs*	*Servicing costs in terms of per cent per annum of average balance (after loading H.O. costs)*	
				Without taking interest costs into account	*After adding interest costs*
Current	22·6	58·2	56·9	3·9	4·0
Savings	25·7	33·0	30·4	1·9	5·1
Fixed	49·2	2·1	6·8	0·2	5·8
Others	2·5	6·7	5·9	—	—

It will be observed that while the service charges are highest for current deposits and lowest for fixed deposits, the position is reversed when the interest cost of funds is taken into consideration. Per voucher costs for current deposits, savings deposits and fixed deposits are estimated at Rs. 1.88, Rs. 1.78 and Rs. 6.29 respectively. The average number of vouchers per account per quarter for savings accounts are only about 2 as against 30 for current accounts, indicating that a large number of savings accounts are maintained by depositors for conserving surplus funds.

12.32 Analysis of the data relating to different categories of advances reveals the following position:

TABLE 12·2—SERVICING COSTS OF AND INCOME FROM ADVANCES OF AN 'ALL-INDIA AVERAGE BANK BRANCH'

Category of advances	*Percentage of total advances*	*Percentage of servicing costs*	*Head Office expenses as % of branch level expenses*	*Servicing costs after loading head office costs**	*Interest income**	*Net Income (i.e., interest income less servicing costs)**
Small scale industries	*10·0*	*29·8*	*12·0*	*3·4*	*8·7*	*5·3*
Large and medium scale industries	*58·9*	*15·1*	*24·1*	*0·3*	*8·6*	*8·3*
Direct loans to farmers	*4·6*	*10·0*	*21·5*	*2·7*	*9·2*	*6·4*
Personal and professional loans ..	*6·0*	*10·3*	*7·9*	*1·9*	*8·9*	*7·0*
Other advances (mostly to trade)	*20·5*	*34·8*	*N.S.*	*1·9*	*8·9*	*7·0*

N.S. Not specified
* Percent per annum of average outstandings

It will be seen that the servicing costs for small scale industries and advances to farmers are high and consequently the net income derived by banks from these two categories of advances is comparatively low.

12.33 Among advances, those to large and medium scale industry are the most clerical-oriented, followed by advances to small scale industry. Direct loans to farmers are the most officer-oriented, followed by personal and professional advances.

12.34 The servicing costs per item of remittances (both for issue and payment) are estimated at Rs. 5.18 for drafts, Rs. 5.55 for mail transfers and Rs. 13.90 for telegraphic transfers. As regards cheques and clean bills, other demand bills and usance bills, the costs per item (for negotiation/collection and remittance of the relative proceeds) are estimated at Rs. 4.89, Rs. 8.48 and Rs. 10.89 respectively. Head Office expenses on these services consist mainly of inter branch reconciliation and work out to 0.2 per cent of the branch level expenses.

12.35 Statement 12.2 showing the comparative position of the 'average bank branch' according to bank groups is attached. The comparison reveals the following significant features:

(*a*) *Deposits*

The proportion of current deposits to total deposits increases with the size of the bank. The average balance in each current or savings account is higher in the case of larger banks than in the case of smaller banks but the number of vouchers does not proportionately decrease. The cost of servicing deposits in the case of small banks is, therefore, comparatively high as they have small sized accounts. Taking the interest cost of funds into account, the large banks have the lowest total cost per hundred rupees of deposits (5.06), while the medium sized banks have the highest total cost (6.33).

(*b*) *Advances*

Finance to large and medium scale industries covers 71 per cent and 46 per cent of the total advances of large sized banks and medium sized banks respectively, while in the case of small banks the relative percentage is only 8. The ratios of advances to small scale industries and direct loans to farmers to total advances do not show much variation in the three groups. Smaller banks have a larger proportion of advances by way of personal and professional loans and trade loans. The servicing costs as a proportion of outstandings increase as the size of the bank diminishes. This is mainly because of the importance of advances to large and medium scale industries, which show a very low servicing cost, in the portfolio of the larger banks. The higher costs of smaller banks are, however, offset by interest income from advances. Small and medium sized banks derive more or less, the same net yield (*i.e.*, interest income *less* servicing cost) from advances, *viz.*, 7.92 per cent and 7.99 per cent respectively, while the net yield in the case of large banks is lower at 7.27 per cent.

(*c*) *Remittances and Bills*

Per item costs of drafts and mail transfers are highest for large banks and lowest for small banks. In regard to bills also, more or less a similar trend is revealed.

12.36 Statement 12.3 showing the comparative data of an 'average bank branch' according to population groups is attached.

The following features are noticed:

(*a*) *Deposits*

The importance of current and fixed deposits decreases from the larger centres to the smaller centres and correspondingly the importance of savings deposits increases. The number of vouchers in current accounts decreases steadily from the larger to the smaller centres, but for both savings accounts and fixed deposits the trend is in the opposite direction. The costs per cent per annum on average balance in deposit accounts are the highest in respect

of very small population centres (*i.e.*, group IV), but decrease with the population size of the centres in regard to the other three groups. The cost per voucher is the lowest for population group II and the highest for population group IV while for population groups I and III it lies between these two limits.

(*b*) *Advances*

In population group I advances to large and medium scale industries predominate while their importance diminishes steadily with the population size of the centre. The cost per cent per annum of average outstanding of advances increases steadily from group I to group IV mainly due to the decrease in the proportion of advances to large and medium scale industries to total advances. The average gross yield for advances is the highest for branches in population group II and the lowest for branches in population group IV, while in population groups I and III the yield is practically the same.

(*c*) *Remittances and Bills*

The turnover of remittances and bills diminishes from the larger to the smaller centres. During the quarter of the survey, the largest centres paid out more than they received in the case of remittances while in other centres more remittances were issued than paid out. The costs per item are the highest for drafts and M.Ts. issued in group I and for T.Ts. in group IV. Group II centres report generally the lowest figures of costs for all types of remittance transactions. In regard to cost of bills, no firm trends are discernible on population group basis.

12.37 The size of the bank and the population location of its branch both have a statistically significant influence on the costs and profitability of the services rendered. The size factor influences branch costs through: (*i*) the level of the overhead costs ; (*ii*) the salary structure ; and (*iii*) the facilities within the bank for investment of surplus funds or for borrowing funds necessary for the branch. The location factor influences: (*i*) the overall quantum of business of a branch and its distribution into different types of activities, and (*ii*) the opportunities for investment of surplus funds locally, or the need for borrowing them. Composition of business influences both costs and earnings, because the servicing costs and the rates of interest differ according to types of output.

12.38 Amongst other important factors are: (*i*) the methods and procedures used ; (*ii*) the productivity of the employees ; and (*iii*) the age of the branch. Generally, the first factor should not make much difference because of standardization. The second is rather a complex matter, depending both on the first and on the degree of harmony prevailing in the branch, and the operation of seasonal factors at the time the data are collected. The last factor can affect costs, especially in early stages when business has not fully

developed, but is offset to an extent by the lower levels of salaries paid because the employees are in the early stages of their time-scales of pay. This factor is unlikely to be significant in the survey data as between the bank groups, but for population groups the costs for the smaller centres are likely to be somewhat higher because a larger proportion of the branches in this group are new.

B. Urban Co-operative Banks

12.39 The all-India average urban co-operative bank profile in regard to costs and income is as under :

TABLE 12·3—COSTS AND INCOME OF AN 'ALL-INDIA AVERAGE URBAN CO-OPERATIVE BANK'

Activities	Average balance (in lakhs of rupees)	Cost per cent per annum of average balance (including interest paid)
Deposits		
Current	5·84	*3·37*
Savings	13·70	*4·64*
Fixed	27·54	*6·38*
Others	3·35	—
Total deposits	**50·43**	*5·52*
Advances		*Net Income*
Industries	1·97	*6·78*
Trade	14·02	*8·74*
Personal & Professional loans	9·78	*7·31*
Other advances	12·18	*8·02*
Total advances	**37·95**	*8·04*

The comparison of this profile with that of the average branch of a medium sized and small sized commercial bank indicates the following position:

(*a*) *Deposits*

The deposits of an average urban co-operative bank are comparable with those of an average branch of a medium sized commercial bank. The distribution of deposits under various categories is on the lines of small commercial banks, but the average outstanding balance per account is about half in the case of current accounts and about 80 per cent in the case of savings accounts. The average number of vouchers per account is also considerably less. The average cost of deposits of an urban co-operative bank is lower than that of an average branch of a medium or small commercial bank.

(b) Advances

In regard to total advances, an average urban co-operative bank is comparable with a branch of a medium sized commercial bank. Advances to trade and personal and professional loans form an important part of their advances portfolio while those to industry are insignificant. The net income per cent per annum on advances is slightly higher than for both commercial bank groups II and III.

(c) Remittances and Bills

The remittance business of an average urban co-operative bank is smaller than for an average bank branch of a small commercial bank and the bill business even smaller. The costs of remittances and bills are somewhat higher in the case of these banks than for small commercial banks.

C. Foreign Exchange Business

12.40 Analysis of the data in regard to foreign exchange business reveals that imports and exports each account for about one-third of the cost of the total foreign exchange business, while clean remittances and other business (such as, bills covering exports on consignment basis, medium-term export credit, deferred payment and other guarantees, etc.) account for 13.4 per cent and 21 per cent respectively of the total. Foreign exchange business as a whole is less clerical-oriented than deposit activities and more clerical-oriented than advance activities. All foreign exchange activities seem to require more or less the same ratio of officer man-hours to clerical man-hours.

12.41 The averages of costs per item of the important activities in the foreign exchange business of banks are as shown below :

TABLE 12·4—AVERAGE COSTS PER ITEM OF IMPORTANT ACTIVITIES IN THE FOREIGN EXCHANGE BUSINESS

Activity	Cost per item* (Rs.)
Import	
1. Letters of credit opened	75·59
2. Bills received under L/C	67·96
3. Bills for collection	56·44
Export	
4. Letters of credit advised	53·01
5. Bills negotiated under L/C	58·91
6. Other bills purchased	47·42
7. Bills for collection	50·30
Clean Remittances	
8. Inward	13·75
9. Outward	31·58
10. Other services	127·73
11. Total activities	50·63

* Head Office costs loaded.

However, there is a very large range of variation for the average costs per item for the various activities. Some part of this variation is likely to be due to specialisation in certain types of business and the differences in salaries amongst the different banks. However, even after allowing for these factors, it would seem that the banks need to pay greater attention to the cost factor in foreign exchange transactions.

12.42 The earnings from foreign exchange business fall under two major heads, *viz.*, 'exchange profit' and 'commission'. There is no uniformity in the calculation of 'exchange profit' amongst the different banks. The Group has attempted to calculate exchange profit in regard to sterling transactions on the basis of the data collected and by using the structure of merchant rates prevalent during the period of the survey. The average profit to banks on sterling remittances (partly covered within the bank itself, partly with the Reserve Bank and partly in the inter-bank market) has been estimated to be in the region of 0.25 per cent and 0.12 per cent for sales and purchases respectively during the survey period. For the business as a whole, *i.e.*, purchases and sales, the exchange profit works out to 0.21 per cent. The rates at which commission may be charged on different types of foreign exchange activities have been laid down by the Foreign Exchange Dealers' Association of India and there has not been any material change in these rates for the past several years. The minimum commission prescribed in respect of certain activities, *e.g.*, letters of credit opened, bills for collections, etc., is low as compared with the cost per transaction. As regards the actual figures relating to commission, it was not possible for the banks to give figures separately for inward and outward foreign transactions. In the circumstances, the amounts earned by way of commission could only be related to the total of all such business. This yielded a figure of 0.03 per cent.

D. *State and Central Co-operative Banks*

12.43 While analysing the cost of these co-operative banks, certain special features have to be kept in view. Firstly, their borrowings from the Reserve Bank, which are at a concessional rate of interest, form a substantial proportion of their working funds and they have also to incur some expenses for complying with the formalities incidental to borrowings ; secondly, their owned funds form the basis for their maximum borrowing powers ; thirdly, wide seasonal variations characterise their operations ; and lastly, there is some rigidity in their cost structure as the rates at which they borrow from the Reserve Bank and rates at which they normally lend operate within a framework of certain factors inherent in the system.

12.44 The composition of the average liabilities and assets of co-operative banks—State and central—on the basis of the available data is given below :

TABLE 12·5—COMPOSITION OF AVERAGE LIABILITIES AND ASSETS OF STATE AND CENTRAL CO-OPERATIVE BANKS

(Figures in per cent)

	State co-operative banks		Central co-operative banks	
Liabilities				
Owned funds		*18·6*		*22·2*
Deposits—				
Current	*6·6**		*12·4‡*	
Savings	*2·3*		*9·6*	
Fixed	*21·8*	*30·7*	*15·8*	*37·9†*
Borrowings—				
From Reserve Bank/Apex Bank ..	*44·9*		*38·8*	
From others	*5·8*	*50·7*	*1·1*	*39·9*
		100·0		**100·0**
Assets				
Cash and bank balances		*3·9*	..	*6·4*
Investments		*12·2*		*10·6*
Loans to lower level institutions ..	*61·1*		*71·9*	
Loans to others	*18·9*	*80·0*	*7·1*	*79·0*
Other assets		*4·0*		*3·9*
		100·0†		**100·0†**

* Ratio of current deposits maintained by affiliated central co-operative banks with State co-operative banks to all current deposits is 40·3 per cent.

‡ Ratio of current deposits of affiliated societies with central co-operative banks to all current deposits is 79 per cent.

† Difference in total is due to rounding off.

The borrowed funds, mainly from the Reserve Bank, form over 50 per cent of the total working funds of the apex banks while they constitute about 40 per cent in the case of central banks. The deposits form only about one-third of the total working funds of both the categories of banks. There is, however, a wide variation between the individual banks in their dependence on the Reserve Bank funds.

12.45 Apart from computing the interest and servicing costs of deposits as a whole and the income from loans and investments, an attempt

was also made by the Group to work out the servicing costs separately of the three categories of deposits, *viz.*, current, savings and fixed. The results are as under:

TABLE 12·6—COSTS AND INCOME OF STATE AND CENTRAL CO-OPERATIVE BANKS

(Figures in per cent)

	State Co-operative Banks				Central Co-operative Banks			
	Interest	Servicing cost	Total	Average cost per voucher	Interest	Servicing cost	Total	Average cost per voucher
	1	2	3	4	5	6	7	8
Costs								
Current deposits ..	0·22	2·32	2·54	1·43	0·33	2·18	2·51	2·89
Savings deposits ..	3·63	1·76	5·39	1·43	3·48	1·72	5·20	2·79
Fixed deposits ..	5·96	0·72	6·68	5·20	6·86	0·30	7·16	6·75
Total deposits ..	4·63	0·64	5·27	1·52	3·71	1·32	5·03	3·01
Borrowings	3·65	0·21	3·86	—	4·24	0·91	5·15	—
Total outside funds ..	4·01	0·39	4·40	—	4·05	1·07	5·12	—
Loans ..	—	0·20	—	—	—	1·21	—	—
Income								
Investments ..	4·30	—	—	—	4·47	—	—	—
Loans ..	4·67	—	—	—	7·01	—	—	—
Margin ..	0·27	—	—	—	1·89	—	—	—

The main observations are given below:

(*a*) *Owned Funds*

Of the 13 apex banks, only 6 have reported distribution of dividend on their share capital in 1968-69 at rates varying from 3 to 6 per cent and out of the 21 central co-operative banks, 13 have reported distribution of dividend ranging from 1 to 6 per cent. Thus, the dividend performance of these banks is rather inadequate. The main reason for this appears to be that in many cases the quantum of owned funds is large in relation to the business of the banks.

(*b*) *Deposits*

The average deposits of a branch of a State co-operative bank at Rs. 219.38 lakhs are even larger than those of an average branch of bank group I. In the case of central co-operative banks, except for current

account deposits, the outstandings per branch are smaller than those for bank group III. The overall cost of deposits to the central banks (5.03) is lower than that for the apex banks (5.27). This is due to the fact that the current deposits of the affiliated societies (which mainly represent the loans sanctioned to them out of Reserve Bank credit limits but kept pending till their actual disbursal and on which little or no interest is paid) account for 79 per cent of the total current deposits of these banks. Even in the case of apex banks, the cost of deposits would have been higher but for the fact that they have a sizeable proportion of current deposits of a similar nature from the central banks. The per voucher costs of State co-operative banks are about 85 per cent of the per voucher cost of commercial banks in group II. However, in the case of central co-operative banks, the costs per voucher are substantially higher being slightly more than double those of commercial bank group III, due to the low volume of vouchers in deposit accounts which would suggest that the staff shown as engaged in this activity is also occupied on other activities.

(*c*) *Borrowings*

While the average cost of borrowings of the apex banks is 3.65 per cent per annum, that of the central banks is 4.24 per cent (*vide* Table 12.6). This can be attributed mainly to the differences in rates of interest charged by the Reserve Bank on short-term loans, medium-term loans, etc., and the differing composition of borrowings of the apex and central banks. Together with the servicing charges the cost of borrowings is 3.86 per cent and 5.15 per cent per annum for apex banks and central co-operative banks respectively.

(*d*) *Total Outside Funds*

The overall cost of outside funds (deposits *plus* borrowings) is 4.40 per cent for apex banks and 5.12 per cent for central banks as against 5.31 per cent for commercial banks. The general impression among co-operative banks that a higher proportion of deposits to working capital escalates the interest cost of funds does not seem to be necessarily correct. The important factors which influence cost of total funds are the proportion of borrowings from the Reserve Bank to working capital and composition of deposits. Further, the survey has revealed that the average percentage of income from deposit activity to the total income of the apex banks at 32.1 per cent is slightly higher than the proportion of their deposits to working capital at 30.7 per cent. In the case of central banks, the estimated income from deposit activity to total income works out to 37.1 per cent as against the proportion of their deposits to total working capital at 37.9 per cent.

(*e*) *Cash and Bank Balances*

An examination of cash held by co-operative banks and current account balances maintained by them with other banks suggests that, in many cases,

these are significantly higher than those maintained by commercial banks giving rise to either avoidable costs or loss of income. There are, however, certain limitations within which the co-operative banks have to work. Many of them operate in areas where even commercial banks are required to maintain higher cash balances for operational reasons. They have also to maintain current account balances with banks (other than the 'notified' banks for the purposes of the Banking Regulation Act, 1949) to facilitate remittances and other operations with the result that the balances so maintained cannot be included in the statutory liquid assets. Further, many co-operative banks appear to be maintaining liquid assets much in excess of the minimum required under the Statute. Sometimes this is unavoidable as a good number of affiliated societies are ineligible for loans on account of overdues and also as they are unable to find avenues for profitable employment of resources or to diversify their business. On the other hand, it is observed that at times co-operative banks borrow from the Reserve Bank to the maximum extent of their eligibility even though the need for funds may not be that large and do not reduce the borrowings from the Reserve Bank promptly when resources are available giving rise to excess in cash reserves.

(*f*) *Investments*

The average rate of return from investments in the case of apex banks is 4.30 per cent while in the case of central co-operative banks it is 4.47 per cent. However, a number of cental co-operative banks earn much less on their investments. This suggests that it should be possible for them to improve their income from this source by paying more attention to the management of investments.

(*g*) *Advances*

There is a wide variation in the costs of servicing loans in individual banks, varying from 0.09 per cent to 0.51 per cent in the case of apex banks and 0.77 per cent to 2.17 per cent in the case of central banks. This is attributable to the fact that in some States, the cost of supervision is borne by the banks themselves, in certain others (*e.g.*, Punjab) it is partly or mainly borne by the State, while in some others (*e.g.*, Maharashtra) supervision charges are collected by the central banks from the societies.

(*h*) *Margin*

The margin available between the return from loans and total cost of outside funds works out to 0.27 per cent for the apex banks and 1.89 per cent for the central co-operative banks (*vide* Table 12.6). Comparing the margin with the servicing cost of lending of 0.20 per cent and 1.21 per cent respectively, *prima facie*, it appears that the margins, on the whole, are adequate to cover the costs and also to provide for reserves and dividends. A closer examination, however, shows that it is not so. For two apex banks and one central

co-operative bank, the margin itself is negative. For one apex and five central co-operative banks, it is less than the servicing cost of lending and in several other cases it is only barely adequate. The important factors which influence the cost of total funds are the proportion of borrowings from the Reserve Bank to working capital, composition of such borrowings, proportion of deposits to working capital and composition of deposits. Higher interest costs on borrowings can be offset by greater diversification of banking services and lending activities. In other words, one of the ways in which the co-operative banks can improve profitability is to increase the proportion of low interest deposits like current accounts and savings accounts from the public. This would require these banks to develop ancillary services like bills collection, remittances, safe deposits, etc., which help in attracting and retaining depositors. Further, to the extent there is duplication of capital and paper work for the same amount of borrowings as well as in maintenance of cash reserves and liquid assets, at the apex and central co-operative bank levels, the two-tier system of co-operative banking seems to add to the cost of operating the system.

Analysis of Profitability of Banks and Measures to Improve It

12.46 Arising out of the findings of the survey, the Group examined the various aspects relating to the profitability of banks and measures to improve it. This exercise was attempted from different angles, *viz.*, (*i*) analysis of profitability of banks, (*ii*) procedure for fair comparison of branch level results, (*iii*) relation between size of banking units and costs, (*iv*) computation of rational service charges and interest rates (keeping in view the need to build up capital and reserves to cover risk assets and development expenses), and (*v*) use of management tools for increasing profitability.

Analysis of Profitability of Banks

12.47 The activities of a commercial bank at the branch level consist of (*i*) funds activities, *i.e.*, obtaining of funds by way of deposits and borrowings, and their use for granting advances including bills purchased and discounted, (*ii*) remittances and bills for collection, and (*iii*) other services. The activities at the head office comprise (*i*) investment of funds in Government securities, etc., (*ii*) borrowings from the Reserve Bank and from the inter-bank call money market, and (*iii*) general accounting and administration.

12.48 The income from funds activities relates to interest received on advances, while the cost relates to interest paid on deposits and borrowings, and servicing charges incurred. As regards remittances and bills the income pertains to exchange and commission while expenses relate to servicing charges. In addition, allowance has to be made for the income on the temporary use of funds generated by remittances and bills collection business; for this purpose the Group used the Treasury Bill Rate on the basis that on an average the

funds would stay with the branch concerned for 10 days. As regards the head office activities, for computing the interest on investments, certain data available with the Reserve Bank of India were used, but the interest payable on borrowings was not taken into account due to non-availability of the relevant data.

12.49 The analysis of profitability for the survey quarter reveals that the funds activities are almost the only source of profit for banks. It is seen that the larger the size of the bank, the greater is the margin of profit on funds activities, mainly because servicing costs and to a larger extent, interest costs are relatively lower as size increases. The analysis, it should be noted, does not cover foreign exchange business and miscellaneous services. Remittance business results in a loss, even after taking into account the imputed interest income for an average bank in all groups. The loss increases as the bank size decreases, because the average amount of each remittance decreases with the size of the bank, so that the servicing cost per constant amount of remittance is larger for the smaller sized banks.

12.50 The margin of profit on deposits computed by deducting the costs (*i.e.*, interest paid and servicing charges) from the income (*i.e.*, interest received on advances and investments made out of deposits) on per cent per annum basis, works out to 1.24 for large sized banks, 1.10 for medium sized banks and 0.52 for small sized banks. This has been attributed to the larger proportion of current deposits held by larger banks which yield maximum profit as also to the fact that average size of deposits increases with the increase in the size of the bank. Thus, the size of the bank has a strong relationship with the ultimate profitability margin.

12.51 The margin of profit on advances per cent per annum works out to 1.77 for large sized banks, 1.37 for medium sized banks and 0.63 for small banks. This is mainly because the net cost of loanable funds to the largest sized banks as a percentage per annum of average advances outstanding is the lowest. The basis of computation of loanable funds was the cost of deposits *plus* the imputed cost of funds in transit arising out of remittances and bill collections *less* the interest yield on investments.

Procedure for Fair Comparison of Branch Level Results

12.52 In considering the profitability of branches and for the purpose of fair comparison of branch-level results, the question of transfer price paid/received by branches to/from the head office on the funds borrowed/lent assumes importance. Replies received from commercial banks to the questions in this regard asked by the Banking Commission showed considerable variations in practice. In the majority of the cases the Bank Rate forms the basis of the transfer price. Some banks also take into consideration such

factors as average cost of funds, average cost of lending, average yield on advances, call money rates, etc., but generally the rates are not fixed on a scientific basis.

12.53 Theoretically, the main object of the transfer price mechanism in any business is to measure profit contribution of various divisions and to facilitate evaluation of their performance. The mechanism is also used to ensure that the divisional performance coincides with the broad policies of the company. It provides the management with a tool to offer incentives to its divisions in accordance with its objectives.

12.54 The Group, after considering the various aspects of the matter, evolved a simple approach in which it is assumed that each branch lends the whole of its deposits and other funds to the head office (which is regarded as constituting a Central Pool for funds of the bank) and borrows the entire requirements for its advances, etc., from out of the Pool. The funds of the Central Pool consist of the owned funds of the bank, *i.e.*, capital and reserves, the funds obtained by the head office by borrowing and the deposits and other funds of branches. The Pool meets the statutory liquidity requirements, lends funds to branches for their advances and invests the balance in the money market, treasury bills and other Government securities, or holds cash. The head office itself is not supposed to be collecting deposits or giving advances as this is regarded as a branch function.[1] The Central Pool pays a price for all the deposits and other funds mobilised by the branches and receives a price for the total amount of funds utilised by branches in advances, other business or kept as cash.

12.55 As to the precise levels of these prices, the Group considered that there should be at least two rates, one for funds lent to the Central Pool and the other for funds borrowed from it. The former should be equivalent to the average rate of interest on deposits for the bank as a whole *plus* servicing cost per cent (branch level as well as head office level) *plus* the profit margin. Similarly, the latter should be equivalent to the net average yield on advances for the bank as a whole, *i.e.*, the average yield *less* the branch and head office level servicing costs, *minus* the profit margin.

12.56 In the case of deposits, the Group did not consider it necessary to vary the transfer price according to the categories of deposits mobilised by branches, particularly because, in India, there is no difference between the statutory liquidity requirements against the various types of deposits. There may, however, be areas where because of various factors, deposit mobilisation though desirable is rather difficult especially in the early years of a branch. Account could be taken of this factor in the transfer price by suitably altering the profit margin. As regards advances, however, if the same rate is applied

[1] See Chapter V of the report of the Group for schematic representation of the flow of funds to and from Central Pool.

on funds borrowed by branches, irrespective of whether they are used for advances to priority sectors or not, the branches might be reluctant to go in for advances to priority sectors as their profit performance would be affected adversely. It is, therefore, necessary that branches are adequately reimbursed to cover the higher cost of servicing advances to priority sectors in order to make their performance coincide with the bank's policy. This can be achieved by a suitable assignment of priorities, by using a system of weighting and altering the profit margin and consequently fixing different rates of transfer price. Illustrations of how this can be done are given in Chapter V of the report of the Group.

12.57 On the basis of the method of fixing Transfer Prices evolved by the Group, the average bank branch in population group IV was incurring a small loss of Rs. 2,950 per quarter, mainly because of the loss on remittance business. With increase in the size of the population centre, the profitability per branch of funds activities increases.

Relation Between the Size of Banking Units and Costs

12.58 At the instance of the Banking Commission, C. Rangarajan of the Indian Institute of Management and Paul Mampilly of the National Institute of Bank Management conducted a study on the relationship between the size of a bank and its costs by working out the relationship between establishment expenses on the one hand and the amount of deposits, the types of deposits, the number of branches and the salary structure for the years 1967, 1968 and 1969 on the other. The study showed that the marginal costs as percentage of deposits go on decreasing initially with increases in a bank's size until it reaches a size of around Rs. 300 crores of deposits but, thereafter, the marginal costs go on increasing. This study, however, is in terms of only one particular output, *viz.*, deposits and relates to banks as a whole and not to branches.

12.59 The Group also attempted to work out the relationship between output and costs by co-relating the number of current account vouchers handled by each branch with the costs of handling them. It found that the relationship is one where the incremental or marginal costs of one unit of output and, therefore, the average costs per unit of output decline with the increases in output. A constant elasticity relationship between cost and output with the elasticity co-efficient less than one fitted the data very well. A similar conclusion was obtained in respect of the relation between the total branch costs and the total physical output for branches in each of the twelve bank-cum-population groups. It appears that the relationship varies more according to the population groups rather than the size of the bank to which the branch belongs. It is observed that when the level of output is low, the average cost per unit of output tends to be higher in smaller centres than in the larger centres and further that in smaller centres the average cost per unit of

output decreases more rapidly as the output increases than in larger centres. This implies that it is more profitable in smaller centres to encourage existing branches to increase their business rather than ask other banks to open branches there. On the whole, on cost and profitability basis, the conclusion is that a bank branch benefits from economies of scale over a very large range of sizes. However, in practice, the size has to be limited taking into account the customer service angle.

Computation of Rational Service Charges and Interest Rates

12.60 One of the important advantages of cost analysis is that it provides information useful for evolving a rational price structure. In the banking industry, it can form the basis for computation of service charges for measuring the profitability of different activities and for adopting proper interest rate policies. In the past, the need for knowledge of the costs and profitability of each one of the bank's services was not keenly felt as long as the profits earned by banks were high. In the banking industry in India, there have been practically no attempts at analysing costs. The banks have been generally working on the principle that so long as they make a reasonable profit on their overall operations, it does not make much difference whether some operations were profitable or others resulted in a loss. With the increasing costs of bank operations, the need has arisen for scientific determination of both the servicing costs and interest rates, which involves determination of profit objectives as a first step.

(*a*) *Determination of Profit Objectives*

12.61 The task of evolving an optimal price structure for the banking industry has to satisfy not only the profit requirements of the industry but has also to fulfil the overall objectives in regard to deposit mobilisation, pattern of bank credit and its cost to the various sectors of the society as well as the general development of banking facilities and banking habit all over the country.

12.62 The national banks are not run with the object of earning maximum profits as they have to make their due contribution towards the fulfilment of the economic and social objectives laid down by the authorities. This does not, however, mean that there should not be any profit motive at all. Nationalisation does not absolve the banks from their obligation to maintain proper financial and monetary discipline. There is a substantial investment of public funds in these banks and a reasonable return on this investment would be expected by the Government. The method of cost control and pricing policy should be such as to ensure a reasonable return on the funds invested by Government in the national banks.

Need to Build up Capital and Reserves

12.63 Before, however, these banks are able to pay any return to the Government, allocations (other than those for special provisions) have to be

made to reserves from the profits of banks for various purposes and more particularly for :

(*i*) the expansion in the fixed assets of banks necessary to enable them to conduct their growing business in a satisfactory manner,

(*ii*) to cover the risks inherent in the banking business, and

(*iii*) for payment of bonus to the staff.

The same principles should apply to the banks in the private sector.

12.64 In this context, the question of capital cover for risk assets of banks also needs to be considered. The primary function of the capital funds of a bank is to reassure both the public and the supervisory authorities that the bank is in a position to withstand whatever strains may be placed upon it. At any given point of time, the different assets of a bank differ considerably from the point of view of the risk of either non-repayment of the funds lent to borrowers or the depreciation in the market value of the securities acquired by the bank, and these risks go on changing over a period of time.

12.65 After consideration of the matter in its various aspects, two methods have emerged in the U.S.A. In the 'adjusted risk assets approach' the various assets are classified into: (*i*) reserve assets, *i.e.*, the liquid assets statutorily required to be maintained by banks, (*ii*) minimum risk assets consisting of assets which have first class liquidity or those which have been insured, (*iii*) portfolio assets comprising various types of investments and loans, (*iv*) sub-standard and specially mentioned assets, (*v*) work-out assets consisting of real estate not used for bank premises and defaulted bonds, and (*iv*) fixed assets. The requirements of capital against each of these are as follows : (*i*) 0 per cent, (*ii*) 5 per cent, (*iii*) 12 per cent, (*iv*) 20 per cent, (*v*) 50 per cent, and (*vi*) 100 per cent. In the second approach, the idea is to provide for extra capital which may be needed to cover possible losses in forced realisation of assets at a time of emergency. These methods involved detailed calculations. In any case it appears that as a result of these various calculations the banks in the U.S.A. would be required to maintain roughly a ratio of equity funds to risk assets of the order of one to six. This level of the ratio is, however, considered somewhat high in view of the strengthening of the banking structure, the existence of the Federal Deposit Insurance Corporation and improvement in the quality of bank assets and in recent years the ratio actually maintained has been somewhat lower than this.

12.66 In India, the ratio of paid-up capital and reserves to aggregate deposits has been continuously declining. In the early stages, the ratio of ten per cent was considered as ideal which was later modified as six per cent. However, even this proportion was not found practicable because the deposits started increasing at a rapid rate while the capital market became slack.

Thus, the ratio of paid-up capital and reserves of the Indian commercial banks to their deposits which was 8.8 per cent in 1951 came down to 4.2 per cent in 1960 and to 2.5 per cent in 1968. Certain developments, such as the establishment of the Deposit Insurance Corporation, the Credit Guarantee Organisation and the Credit Guarantee Corporation have helped to reduce the risk of loss to depositors in the case of possible bank failure, and to banks themselves in the event of a failure of a borrower in the small scale industries sector and other small borrowers. The progress made in restructuring the banking system, through compulsory or voluntary liquidation of non-viable units or their merger with bigger banks, has also helped to increase the safety of bank deposits. In the process, the question of capital adequacy has gone into the background and currently the practice seems to be to allocate to the reserves only: (*a*) what is necessary by way of provision for bad and doubtful debts, (*b*) the allocation required by law which is a minimum of 20 per cent of disclosed profits after tax, and (*c*) some allocation to secret reserves. This position appears to be somewhat unsatisfactory, and there is a need for evolving a proper policy in regard to the capital funds of banks. The Commission has given its recommendations on this matter at a later stage in this chapter.

(*b*) *Pricing of the Services of Banks*

12.67 At this point it is useful to examine the problem of improving the profitability of banks by altering the price structure for the services rendered by them. The main components of this price structure are interest rates and service charges. The factors that have to be taken into account in considering changes in the levels of interest rates are quite different from those relevant for the levels of service charges.

Interest Rates

12.68 Interest rates on deposits or on advances are generally subject to two types of regulations by monetary authorities : (*i*) overall regulation through monetary policy directed at controlling the cost and supply of credit, and (*ii*) detailed regulation of interest rates on deposits, with the objective of preventing wasteful competition, and of interest rates on different categories of advances, the objective in this case being to render assistance to the national economic policy by prescribing concessional low rates for priority sectors and higher rates to discourage borrowing by low priority sectors in the economy. These regulations limit the freedom of action by banks in framing a strategy for achieving profit objectives. Thus, the liquidity requirements restrain the growth of risk assets while an upward revision of interest rates on advances increases the earning power of banks.

12.69 Changes in interest rates on deposits can result in variation in the composition of the deposit-mix and can have considerable effect on the cost of deposit funds. From the point of view of maximum deposit mobilisation, the deposit interest rate structure has to conform to the public's expecta-

tions about the appropriate rates for deposits of different terms. In the absence of market determination of rates, considerable amount of research is required to indicate which rates need revision and in what direction.

12.70 Larger banks seem to be benefited to a greater extent by the pattern of present interest rates in the matter of costs, since: (*i*) they have proportionately more deposits in current account (which are the cheapest types of deposits in terms of total costs per cent per annum), and (*ii*) they are required to pay lower rates for savings and fixed deposits.

Service Charges

12.71 For levying service charges several methods can be used by banks. These include the Flat Service Charge Method, the Measured Service Charge Method and the Complete Analysis Method. In the flat service charge method, a charge at a flat rate is levied on all current and cheque operated savings accounts of depositors which fall below a specified average minimum balance during the period. Under the measured service charge method, in addition to a basic charge on accounts falling below a specified minimum balance with a certain number of free cheques, a definite charge is made for cheques in excess of this specified number of free cheques. The principle behind the complete analysis method is that each customer should pay a service charge to the bank which would be sufficient to compensate for the difference between the cost of the services rendered and the income arising out of the utilisation of the average balance in his account. While the flat service charge method is the simplest, it is highly inequitable as it does not distinguish between a customer who uses the bank frequently and one whose account is inactive although the former costs the bank quite a lot more than the latter. The complete analysis method on the other hand though satisfactory from this point of view is rather complicated to operate.

12.72 In India, the fixing of charges on the various types of domestic services is left to individual banks while the charges for foreign exchange transactions are prescribed by the Foreign Exchange Dealers' Association (FEDA). Many banks attempt to recover a part of the servicing cost of current and savings deposits from the depositors on the basis of the flat service charge method. Even in this method, there is no uniform practice followed by banks. Some banks stipulate that a minimum balance should be maintained in the current account and levy a charge if the balance goes below this level, while others make a flat service charge in respect of the account. For savings deposits, some banks prescribe a minimum balance if the depositor wishes to avail himself of the facilities of a cheque book. In some banks, there are also rules about maximum number of withdrawals during a year and/or the maximum amount that may be withdrawn at a time. Systems like these, which do not take into consideration the volume of activity in an account, result in reducing the net earnings of banks and discriminating against the less costly accounts.

12.73 Banks can improve their profitability and also have a more equitable system of charges by adopting the measured service charge method for current and cheque operated savings bank accounts. The complete analysis system, though theoretically still more equitable, would be very difficult to apply in practice except for very large accounts because of the detailed calculations involved. A simple method based on the following considerations would be suitable in Indian conditions: (*i*) minimum balances are prescribed for each type of account, (*ii*) the extent of free facilities depends on the size of the account, (*iii*) a charge is made per transaction if the balance in the account is below the minimum or the total number of transactions in a period exceeds the maximum allowed for the account, and (*iv*) consideration is given to the need to encourage the banking habit particularly amongst the small account holders.

12.74 Keeping the above considerations in view, the Group has suggested a scheme for reframing by banks of their schedules of charges in regard to various types of deposit accounts, advances, remittances and bills for collection, on the following lines :

(*i*) In the case of small current and savings deposit accounts, the minimum balance and number of free transactions should be allowed liberally in the interest of developing the banking habit ; it is not necessary to link these strictly with the actual cost.

(*ii*) In the case of fixed deposits, there should be minimum limits for deposits for shorter periods because :

(*a*) the short-term deposits cost more in terms of servicing than longer-term deposits as the former generally go on turning over by way of renewals, and

(*b*) the incidence of service charges varies inversely with the size of the deposit.

(*iii*) In the case of advances, where the servicing costs are disproportionate to interest income, banks should persuade the borrowers, if possible, to change over from cash credit or overdraft to loan accounts or, in the alternative, stipulate a certain maximum number of items beyond which they would levy an item-wise service charge. (However, as far as possible and more particularly in the case of advances to priority sectors, the cost should be reduced by bringing about procedural improvements rather than by levying item-wise charges in view of the policy to provide bank credit to low income groups for productive endeavour at reasonable costs).

(*iv*) For remittances and bills for collection, again different banks have different systems of charges. Sometimes there is a charge per instrument and sometimes there is a percentage charge with a minimum. The percentages are very odd, *e.g.*, 1/64 to 1/4, 1/2 to 12 paise, 6 to 9 paise, 8 to 10 paise, 12 to 15 paise, etc. Most of these systems are quite complicated. Another draw-

back of these systems is that where a percentage charge is made for remittances or bills for collection, the more money a person makes available to the bank between the period the instrument is issued and paid, the more he is charged. Thus the bank not only makes a larger profit on a larger amount by investing it for the period it remains with the bank but also collects a larger commission. The Group has suggested a thorough revision of these systems taking into account the fact that the larger the amount of the remittance or bill, the larger is the amount of money in the pipe line which the bank can use for a temporary period.

Use of Management Tools for Improving Profitability

12.75 Banks should formulate profit objectives after taking into consideration the various factors mentioned in paragraph 12.63, *i.e.*, adequate return on capital, provision for risk assets, creation of a reserve for modernisation and future expansion and payment of bonus to staff. Apart from reforming the structure of their prices, the management tools which would prove useful in achievement of these objectives are : (*i*) standardisation and simplification of systems and procedures, (*ii*) development of a proper information system for cost and performance, (*iii*) budgetary control, and (*iv*) improvement in productivity of staff. As regards (*i*), (*ii*) and (*iii*) above, the recommendations of the Commission have been given in Chapters 11 and 13. The other aspects are discussed below.

12.76 The use of Inventory Control Technique for Cash Management in banks was investigated in detail by Kum. Kala Pant at the instance of the Banking Commission. Kum. Pant studied the daily cash transactions namely, total receipts, total payments and balance at the end of each woking day of the calendar year 1969 for 84 branches of a large sized bank, 78 and 75 branches of two medium sized banks and 28 branches of a small sized bank, all drawn by using the techniques of statistical sampling. Data were also collected for the weekly outstandings of deposits and advances of these branches with environmental data of places where these branches are located. A suitable mathematical model was built up for arriving at decisions regarding the optimal level of cash at branches of various types, the optimal level being defined as the level to which the cash in a branch can be safely reduced, that is to say, the probability of a branch being short of cash being reduced to the level desired by the management.

12.77 The general conclusion of this study is that Cash Management can be considerably improved by banks with the use of such a method. The balances held by most of the branches appear to be considerably larger than necessary. The percentage of cash to deposits of a branch that can be safely reduced varied from 0.6 to 7.2 for branches in the sample. The percentage saving is low in large cities, the average for the sample branches of the four banks being 1.8. In cities with a population ranging from 50,000 to 5 lakhs the

saving appears to be considerable, in the neighbourhood of 4.6 to 4.7 per cent. These figures suggest an area which requires attention of the bank management. Banks can benefit considerably by using techniques of Cash Management on the lines of the work done by Kum. Pant.

12.78 The suggestions relating to measurement of productivity of staff have been made in the chapter on Information System for Banks. An improvement in the productivity of employee effort can normally be achieved through : (*i*) bringing in maximum job experience into each work in preference to lower costs, *i.e.*, entrusting responsible work to experienced persons who may have to be paid more rather than to inexperienced low paid staff, (*ii*) providing job satisfaction through affording due recognition of merit, seniority and experience, (*iii*) adopting the policy of choosing the job for a man rather than man for the job on the basis of a technical assessment of the job-specifications and relating them to the nature of job effort required, (*iv*) replacing overtime hours by additional normal hours wherever the quantum of work so warrants, (*v*) relating the remuneration for the work to the effort and responsibility it calls for, (*vi*) evolving methods which would be convenient to the employees and economical to the management, and (*vii*) laying greater emphasis on group performance rather than on individual performance in determining special rewards or payments for good work done. Further, as stated in paragraphs 14.56 to 14.60 of the chapter on Management Development in Banks, the introduction of various schemes for worker participation and motivation can significantly contribute towards increasing the productivity of staff.

General Observations and Recommendations

12.79 The survey conducted by the Group is a pioneer effort in the field of analysing costs incurred by banks in rendering various services to depositors and other customers, and profitability of banks and their branches, on a scientific basis. As the Group itself has pointed out in paragraph 12.2 of its report, there were several limitations mainly arising from the constraint of the time element and, therefore, the results arrived at by it in terms of figures should be considered only as illustrative. These considerations notwithstanding, the survey has yielded very useful results. Its chief merit is that it has shown the scope for applying methods of cost analysis to the Indian banking industry and has identified the areas in which further research is called for. The broad features emerging out of the survey can, in the Commission's view, form the basis for action on the part of banks in adopting modern management methods such as cost analysis and control techniques.

12.80 The examination of the structure of costs, the structure of prices for bank services, profitability of banks of different sizes and of branches of banks suggests that there is considerable scope for improvement in these matters. The recommendations fall broadly into : (*i*) those which involve

broad public interest, and (*ii*) those which relate to improvement of managerial systems and procedures. The recommendations in the first category relate to the improvement of profitability of banks and strengthening their capital structure. Improvement of profitability can come about through action in regard to the pricing structure, *viz.*, interest rates and service charges and that in regard to cost control. The former impinging as it does on several sectors of the economy has to be taken not only in the light of profit requirements of the industry but also the overall objectives of the Government in regard to deposit mobilisation, pattern of bank credit and the general development of banking facilities and banking habit. Considerable research is needed to ascertain the effects of the changes in interest rates and service charges on the demand for bank services. The Commission feels that, with the major part of the banking industry in India in the public sector, a restructuring of the prices with due attention to the cost element together with measures designed to raise productivity will help the authorities significantly in the realisation of their broader objectives. The Commission is of the opinion that there is scope for modifying the pricing system in such a way that in fixing charges levied on the different customers, the use they make of the banking system is taken into account.

12.81 An important first step in restructuring the price for bank services, in the Commission's view, is to define the profit objective which the banks should have. In the case of national banks, a reasonable return on its investment would be expected by the Government. As to what this should be is a matter for the Government to decide. The method of cost control and pricing policy (which will necessarily have to be based on past experience) in such cases should be such as to ensure this rate of return. Since, however, this return on investments is in the nature of a residual, the method of cost control policy should be such as to ensure the return at a specified rate after meeting the requirements for purposes of expansion and modernisation as well as for strengthening the various units. For the national banks, there should be a common policy in this regard. It is also necessary, especially since these banks are now financing certain sectors of the economy which were not being traditionally served by commercial banks, that care should be taken to see that risk assets are adequately covered. The present system of classification of debts considered as bad or doubtful of recovery needs to be changed in favour of a more detailed classification in order to cover the risk assets adequately. For this purpose, the national banks should be required to classify their loans and advances (including bills purchased and discounted) into different categories, say, (*i*) regular advances, (*ii*) sub-standard advances, (*iii*) doubtful advances, and (*iv*) bad debts. The provision made should be equal to specified percentages of these different categories. Adequate provision should also be made for depreciation in assets other than advances. The Reserve Bank should specify the different categories and also the relative percentages on the basis of the past experience and such data as it might have gathered through periodical inspection of banks or otherwise.

It should lay down guidelines for the classification on the basis of which the banks themselves should classify the advances and make the necessary provision. The external auditors should be required to examine during the course of their audit, the classification and also the provision made, and certify that it is adequate. The Reserve Bank may, if necessary, vary the rates of provision for all banks or for any particular bank from time to time. Apart from the provision to cover the depreciation and the risk assets, the allocations from profit should be made to provide for the capital expenditure needed for further expansion by way of opening new branches or for modernisation of systems and procedures through mechanisation, etc. The banks in the private sector should also be persuaded to follow similar policy in regard to making provisions and appropriation of profits.

12.82 The purpose of the secret reserves in the past was to add an undisclosed strength to the bank which could be useful in times of stress or strain or in an emergency. With the nationalisation of major banks, this purpose has lost its validity and the public are entitled to know the true and fair position of banks through their published accounts. If the position of the bank is good, it does not need secret reserves as a strengthening factor. On the other hand, if its position is unsatisfactory, secret reserves will really be of very little use. Further, the protection afforded to the depositors by the Deposit Insurance Corporation and to banks by Credit Guarantee Organisation/Corporation in respect of advances to small scale industries and small borrowers, renders the maintenance of secret reserves superfluous. As the payment of bonus is linked with net profits, the secret reserves create a suspicion in the minds of the workers. Recently, in the U.K., the clearing banks collectively decided to reveal their true profits and reserves. In view of what has been stated above and as larger provision for risk assets is expected to be made by banks in view of the recommendation made in paragraph 12.81, banks in India need not also keep any part of their reserves secret. The legal aspects of this matter have been discussed in Chapter 19.

12.83 From the point of view of maximum deposit mobilisation, the deposit interest rate structure has to conform to the expectations of the public about the appropriate rates for deposits of different terms. One method of achieving this is to let banks compete freely for deposits, so that market forces determine the rate structure. In the absence of market determination of rates, a considerable amount of research will have to be undertaken to determine which rates need revision and in what direction. The Commission recommends that this should be initiated by the appropriate authority.

12.84 The effects on servicing costs because of shifts in the distribution of deposits between current, savings and fixed consequent on changes in interest rates for deposits is also an area in which research is needed to ascertain the direction and the magnitude of such effects. This research should also be initiated by the appropriate authority.

12.85 Banks could improve their profitability and also have a more equitable system of charges by adopting for deposits, the Measured Service Charge Method described earlier. The Complete Analysis System, though theoretically still more equitable, would be very difficult to apply in practice except for very large accounts because of the detailed calculations it involves. The Commission, therefore, recommends the adoption of a simpler method, for the majority of deposit account, the main elements of which should be the following: (*i*) minimum balances should be prescribed for each type of accounts, (*ii*) the extent of free facilities should be dependent on the size of the account, (*iii*) a charge should be made per transaction if the balance in the account is below the minimum, or the total number of transactions in a period exceeds the maximum allowed for the account, and (*iv*) consideration should be given to the need to encourage the banking habit particularly amongst the small account holders. In the case of advances the emphasis should be on cost reduction through procedural improvements especially in the case of priority sectors.

12.86 The actual details of the schedule of charges given in the Group's report are only of an illustrative nature. They could and indeed should be improved upon in the light of more comprehensive data on costs such as would be obtained when the arrangements recommended for collecting such data in Chapter 13 are brought into effect. It needs also to be pointed out that the suggestions made are on the basis of the averages for all banks worked out on the basis of procedures in use and other conditions obtaining at the time of the survey. A more correct way would be to fix the maximum levels of charges according to the size groups of the banks and the average costs of banks in the group.

12.87 It is very important to keep a watch on how the revision of charges actually works out in practice. If for instance, they result in over-fulfilling the profit objectives, suitable adjustments should be made to lower the schedule in the interests of the broader objective of spreading the banking habit.

12.88 In the field of foreign exchange business the Group's study indicates that there is a need for banks to examine carefully their existing procedures and methods of handling foreign exchange transactions and also for developing methods of cost and profitability analysis in this field. The Commission would like in this context to refer to the recent exchange rate adjustments of several important currencies and the use of wider margins for spot rates permitted by the International Monetary Fund. The implications of such changes on the banks and their customers need to be studied. The Commission recommends further work in this matter by bankers who have the necessary expertise.

12.89 Another important aspect of the charges for foreign exchange transactions is the prescription of minimum rates by FEDA for the different

types of commission charges. It appears that this was done with a view to preventing wasteful undercutting particularly when the Indian banks were new to foreign exchange business. The relevance of such a practice in the present context needs to be examined. The Commission feels that in this field the maximum should be related to the average of the costs of these banks.

12.90 The profitability of co-operative apex and central banks can be improved: (*a*) by bringing down excess cash reserves for which the authorities should 'notify' for the purposes of the Banking Regulation Act, 1949, all national banks with whom balances are maintained to facilitate remittances and other operations, and by the co-operative banks giving attention to better management of resources, and (*b*) by efficient management of liquid assets, by diversifying activities and improving the absorbing capacity of primary societies.

12.91 The validity of policies being pursued now to increase the capital base of co-operative banks through members' contribution as well as Government participation has to be re-examined to ensure a reasonable return on capital. The relevant considerations on this matter have been discussed in Chapter 10.

12.92 Coming to the second category of recommendations, most of them relate to the improvement of the rather unsatisfactory information system existing in the banks. These have been given in Chapter 13 on Information System for Banks. There are, however, a couple of special problems which require mention here.

12.93 The first of these problems relates to the use of an appropriate transfer price system in evaluating branch profitability. The system developed by the Group has been briefly described in paragraphs 12.52 to 12.57. The Commission feels that as the major sector of the banking industry has to follow the same overall policy objectives while competing with each other in the same market for deposits and advances, the banks should adopt a practice in regard to transfer prices which is suitably designed to the needs of the times.

12.94 In evolving a method for profitability analysis of bank branches, care should be taken to ensure that the method truly and fairly measures the profit performance of a branch against the background of the policies of the bank.

12.95 The Commission recommends adoption of a method of transfer prices based on the Central Pool concept and weightage on the basis of various priorities, the use of which will assist banks in making their branches conform to their overall policies and objectives.

12.96 The calculation of rates to be charged for transfer price mechanism should be done at quarterly intervals. If, however, there is a major

change affecting either the level of the interest rates or their pattern, it will be necessary to revise the transfer price immediately such a change occurs. The Commission further recommends that systematic attempts should be made by institutions engaged in banking research to do further work on this and similar matters in order to evolve methods of cost and profitability analysis appropriate to the conditions in India.

12.97 The other problem relates to the scope for economies of scale in the banking industry. While the work done by the Group furnishes some indications, the Commission feels that it is possible to gain much greater insight into the relationship between output and costs through statistical analysis of the data and further research on various aspects of these relationships. The Commission recommends that such research should be carried out bank-wise in order to find out the scope for increasing banks' profitability by increasing the business of their branches. For this purpose, historical data are necessary giving the total outputs of the branches and their costs at various points of time. These can be combined for branches doing similar type of business and the relationships worked out.

STATEMENT 12·1

OPERATING EXPENSES OF INDIAN SCHEDULED COMMERCIAL BANKS

(Amounts in crores of Rs.)

	1961	1962	1963	1964	1965	1966	1967	1968
1. Average deposits on weekly basis* ..	1572·99	1767·97	1919·24	2167·36	2448·78	2856·68	3224·81	3651·27
2. Interest paid on deposits	36·23	44·45	50·20	59·33	86·24	115·34	132·35	147·48
Percentage of deposits	*(2·30)*	*(2·51)*	*(2·62)*	*(2·74)*	*(3·52)*	*(4·04)*	*(4·10)*	*(4·04)*
3. Interest paid on borrowings	1·92	1·23	1·71	2·93	6·08	4·29	5·08	5·84
Percentage of deposits	*(0·12)*	*(0·07)*	*(0·09)*	*(0·14)*	*(0·25)*	*(0·15)*	*(0·16)*	*(0·16)*
4. Establishment expenses	30·60	37·04	42·94	52·07	65·50	80·80	100·25	116·09
Percentage of deposits	*(1·95)*	*(2·10)*	*(2·24)*	*(2·40)*	*(2·68)*	*(2·83)*	*(3·11)*	*(3·18)*
5. Other working expenses**	8·91	11·33	12·70	14·78	17·63	21·02	22·91	26·72
Percentage of deposits	*(0·57)*	*(0·64)*	*(0·66)*	*(0·68)*	*(0·72)*	*(0·74)*	*(0·71)*	*(0·73)*
6. Total operating expenses	78·82	95·48	109·28	131·14	177·96	224·38	264·08	300·17
Percentage of deposits	*(5·01)*	*(5·40)*	*(5·69)*	*(6·05)*	*(7·27)*	*(7·86)*	*(8·19)*	*(8·22)*

* Relates to the financial year, as published in the Reserve Bank of India Bulletin.

** Comprising Directors' fees, rent, postage, stationery, law charges, etc.

STATEMENT 12·2

STATEMENT SHOWING THE COMPARATIVE POSITION OF THE AVERAGE BANK BRANCH ACCORDING TO BANK GROUPS

'A'—DEPOSITS

(For the quarter ended March 31, 1970)

GROUP I

	Category of Deposits				
	Current	Savings	Fixed	Other Deposits	Total
	1	2	3	4	5
Outstandings (lakhs of Rs.)	21·90 (*24·8*)	21·89 (*24·8*)	43·00 (*48·7*)	1·53 (*1·7*)	88·32 (*100·0*)
No. of vouchers	8641 (*61·8*)	4256 (*30·4*)	300 (*2·1*)	801 (*5·7*)	13998 (*100·0*)
Average balance per account (Rs.) ..	7794	992	—	—	—
% per annum of average balance: Interest Cost ..	0·06	3·27	5·65	—	3·67
% per annum of average balance: Servicing Cost* ..	3·33	1·59	0·20	—	1·39
% per annum of average balance: Total Cost*	3·39	4·86	5·85	—	5·06
Per voucher cost* (Rs.)	2·11	2·05	7·27	—	2·19

GROUP II

	Category of Deposits				
	Current	Savings	Fixed	Other Deposits	Total
	6	7	8	9	10
Outstandings (lakhs of Rs.)	9·49 (*19·3*)	13·81 (*28·1*)	24·05 (*48·9*)	1·84 (*3·7*)	49·19 (*100·0*)
No. of vouchers	7441 (*55·5*)	4824 (*36·0*)	229 (*1·7*)	911 (*6·8*)	13405 (*100·0*)
Average balance per account (Rs.) ..	3905	652	—	—	—
% per annum of average balance: Interest Cost ..	0·11	3·28	5·42	—	4·45
% per annum of average balance: Servicing Cost* ..	5·28	2·23	0·23	—	1·88
% per annum of average balance: Total Cost*	5·39	5·51	5·65	—	6·33
Per voucher cost* (Rs.)	1·68	1·60	6·15	—	1·73

GROUP III

	Category of Deposits				
	Current	Savings	Fixed	Other Deposits	Total
	11	12	13	14	15
Outstandings (lakhs of Rs.)	3·83 (*16·9*)	5·20 (*22·9*)	12·72 (*55·9*)	0·98 (*4·3*)	22·73 (*100·0*)
No. of vouchers	3525 (*51·8*)	2217 (*32·6*)	236 (*3·5*)	825 (*12·1*)	6803 (*100·0*)
Average balance per account (Rs.) ..	2775	554	—	—	—
% per annum of average balances: Interest Cost	0·04	3·47	5·50	—	4·14
% per annum of average balances: Servicing Cost* ..	5·03	2·25	0·24	—	1·67
% per annum of average balances: Total Cost*	5·07	5·72	5·74	—	5·81
Per voucher* cost (Rs.)	1·37	1·32	3·21	—	1·40

Figures within brackets indicate percentages to total.

* Head Office costs loaded.

STATEMENT 12·2

STATEMENT SHOWING THE COMPARATIVE POSITION OF THE AVERAGE BANK BRANCH ACCORDING TO BANK GROUPS—(*Contd.*)

'B'—ADVANCES

(For the quarter ended March 31, 1970)

Category of Advances	GROUP I				GROUP II				GROUP III			
	Outstandings (lakhs of Rs.)	Servicing* cost‡	Interest income‡	Net* income‡	Outstandings (lakhs of Rs.)	Servicing* cost‡	Interest income‡	Net* income‡	Outstandings (lakhs of Rs.)	Servicing* cost‡	Interest income‡	Net* income‡
	1	2	3	4	5	6	7	8	9	10	11	12
1. Small Scale Industries	5·20 (*9·1*)	4·32	8·55	4·23	4·18 (*11·5*)	2·23	8·76	6·53	1·55 (*11·0*)	2·94	9·83	6·89
2. Large and Medium Scale Industries	40·59 (*70·8*)	0·30	8·14	7·84	16·65 (*46·1*)	0·39	9·76	9·37	1·16 (*8·3*)	0·77	9·75	8·98
3. Direct Loans to Farmers ..	2·16 (*3·8*)	3·67	9·14	5·47	2·09 (*5·8*)	1·83	8·95	7·12	0·80 (*5·7*)	1·43	10·65	9·22
4. Personal and Professional Loans	2·12 (*3·7*)	1·81	9·35	7·54	3·01 (*8·3*)	1·97	7·90	5·93	2·35 (*16·8*)	1·95	11·01	9·06
5. Other Advances	7·24 (*12·6*)	1·87	8·52	6·65	10·22 (*28·3*)	2·04	9·18	7·14	8·17 (*58·2*)	1·48	8·98	7·50
6. **Total** 1 to 5	**57·31** (*100·0*)	**1·04**	**8·31**	**7·27**	**36·15** (*100·0*)	**1·28**	**9·27**	**7·99**	**14·03** (*100·0*)	**1·66**	**9·58**	**7·92**

Figures within brackets indicate percentages to total.
* Head Office costs loaded. ‡ Per cent per annum of average balance outstanding.

STATEMENT 12·2

STATEMENT SHOWING THE COMPARATIVE POSITION OF THE AVERAGE BANK BRANCH ACCORDING TO BANK GROUPS—(*Contd.*)

'C'—REMITTANCES AND BILLS

(For the quarter ended March 31, 1970)

	GROUP I			GROUP II			GROUP III		
	Amount (lakhs of Rs.)	Number	Servicing cost per item* (Rs.)	Amount (lakhs of Rs.)	Number	Servicing cost per item* (Rs.)	Amount (lakhs of Rs.)	Number	Servicing cost per item* (Rs.)
	1	2	3	4	5	6	7	8	9
PART I									
Remittances									
1. Drafts									
(*a*) Issued	43·53	1283	3·91	29·35	1095	2·96	12·76	673	2·69
(*b*) Paid	55·44	1325	1·94	25·19	1015	1·74	13·38	864	1·11
Total (*a*) + (*b*)	—	—	**5·85**	—	—	**4·70**	—	—	**3·80**
2. M.Ts.									
(*a*) Issued	15·69	228	4·20	5·98	221	3·27	1·18	63	3·40
(*b*) Paid	20·20	235	2·02	7·64	217	1·59	1·13	60	1·28
Total (*a*) + (*b*)	—	—	**6·22**	—	—	**4·86**	—	—	**4·68**
3. T.Ts.									
(*a*) Issued	105·17	92	9·32	29·12	54	8·81	3·15	13	9·00
(*b*) Paid	117·21	110	4·73	36·59	56	4·73	1·46	8	5·13
Total (*a*) + (*b*)	—	—	**14·05**	—	—	**13·54**	—	—	**14·13**

STATEMENT 12·2

STATEMENT SHOWING THE COMPARATIVE POSITION OF THE AVERAGE BANK BRANCH ACCORDING TO BANK GROUPS—(*Concld.*)

'C'—REMITTANCES AND BILLS—(*Concld.*)

(For the quarter ended March 31, 1970)

	GROUP I			GROUP II			GROUP III		
	Amount (lakhs of Rs.)	Number	Servicing cost per item* (Rs.)	Amount (lakhs of Rs.)	Number	Servicing cost per item* (Rs.)	Amount (lakhs of Rs.)	Number	Servicing cost per item* (Rs.)
	1	2	3	4	5	6	7	8	9
PART II									
Bills									
1. Cheques and Clean Bills									
(*a*) Negotiation/Collection	32·03	1327	2·45	27·49	1193	2·27	5·50	432	2·53
(*b*) Remittances	20·15	802	3·13	25·19	974	2·03	8·14	552	2·11
Total (*a*) + (*b*)	—	—	**5·58**	—	—	**4·30**	—	—	**4·64**
2. Other Demand Bills									
(*a*) Negotiation/Collection	21·49	424	4·30	11·95	373	4·24	4·38	117	4·08
(*b*) Remittances	27·23	653	4·93	16·00	675	3·60	5·40	372	3·54
Total (*a*) + (*b*)	—	—	**9·23**	—	—	**7·84**	—	—	**7·62**
3. Usance Bills									
(*a*) Negotiation/Collection	5·57	129	3·06	2·29	57	6·42	1·64	26	4·62
(*b*) Remittances	2·97	69	7·77	2·43	55	6·51	0·98	42	3·55
Total (*a*) + (*b*)	—	—	**10·83**	—	—	**12·93**	—	—	**8·17**

* Head Office costs loaded.

STATEMENT 12·3

STATEMENT SHOWING THE COMPARATIVE DATA OF AVERAGE BANK BRANCH ACCORDING TO POPULATION GROUPS

'A'—*DEPOSITS*

(For the quarter ended March 31, 1970)

Category of Deposits	GROUP I				GROUP II			
	Out-standings (lakhs of Rs.)	No. of vouchers	Interest and servicing cost†*	Per voucher cost* (Rs.)	Out-standings (lakhs of Rs.)	No. of vouchers	Interest and servicing cost†*	Per voucher cost* (Rs.)
1	2	3	4	5	6	7	8	9
Current ..	40·49 (*27·3*)	19933 (*67·9*)	3·69	1·86	16·72 (*21·2*)	9931 (*55·9*)	4·06	1·66
Savings ..	29·05 (*19·6*)	7773 (*26·5*)	5·53	2·19	20·51 (*26·0*)	6338 (*35·7*)	5·17	1·51
Fixed ..	75·28 (*50·8*)	504 (*1·7*)	5·69	7·56	39·04 (*49·6*)	325 (*1·8*)	5·75	6·01
Other Deposits ..	3·38 (*2·3*)	1143 (*3·9*)	—	—	2·51 (*3·2*)	1167 (*6·6*)	—	—
Total ..	**148·20** (*100·0*)	**29353** (*100·0*)	**5·71**	**2·07**	**78·78** (*100·0*)	**17761** (*100·0*)	**5·38**	**1·68**

Category of Deposits	GROUP III				GROUP IV			
	Out-standings (lakhs of Rs.)	No. of vouchers	Interest and servicing cost†*	Per voucher cost* (Rs.)	Out-standings (lakhs of Rs.)	No. of vouchers	Interest and servicing cost†*	Per voucher cost* (Rs.)
	10	11	12	13	14	15	16	17
Current ..	7·98 (*18·9*)	3938 (*50·5*)	4·22	2·11	2·61 (*16·7*)	1414 (*43·6*)	5·63	2·57
Savings ..	13·19 (*31·3*)	2846 (*36·5*)	4·71	1·64	5·78 (*36·9*)	1416 (*43·7*)	5·52	2·03
Fixed ..	20·06 (*47·6*)	209 (*2·7*)	5·91	5·60	6·92 (*44·1*)	101 (*3·1*)	5·95	5·32
Other Deposits	0·90 (*2·2*)	804 (*10·3*)	—	—	0·36 (*2·3*)	311 (*9·6*)	—	—
Total ..	**42·13** (*100·0*)	**7797** (*100·0*)	**5·28**	**1·95**	**15·67** (*100·0*)	**3242** (*100·0*)	**5·98**	**2·37**

Figures within brackets indicate percentages to total.
* Head Office costs loaded.
† Per cent per annum of average balance.

STATEMENT 12·3

STATEMENT SHOWING THE COMPARATIVE DATA OF AVERAGE BANK BRANCH ACCORDING TO POPULATION GROUPS—(Contd.)

'B'—*ADVANCES*

(For the quarter ended March 31, 1970)

Category of Advances	GROUP I			GROUP II		
	Out-standings (lakhs of Rs.)	% per annum of average outstandings		Out-standings (lakhs of Rs.)	% per annum of average outstandings	
		Servicing cost*	Interest income		Servicing cost*	Interest income
	1	2	3	4	5	6
1. Small Scale Industries ..	8·19 (*5·1*)	*4·29*	*8·51*	7·59 (*18·2*)	*3·03*	*8·64*
2. Large and Medium Scale Industries	119·59 (*74·4*)	*0·28*	*8·62*	16·92 (*40·6*)	*0·44*	*8·73*
3. Direct Loans to Farmers ..	1·24 (*0·8*)	*1·75*	*8·44*	2·19 (*5·3*)	*2·72*	*8·55*
4. Personal and Professional Loans.	5·45 (*3·4*)	*1·42*	*9·39*	3·50 (*8·4*)	*1·78*	*8·42*
5. Other Advances	26·13 (*16·3*)	*1·36*	*8·96*	11·46 (*27·5*)	*2·11*	*9·03*
6. **Total (1 to 5)**	**160·60** (*100·0*)	*0·71*	*8·70*	**41·66** (*100·0*)	*1·61*	*8·76*

Category of Advances	GROUP III			GROUP IV		
	Out-standings (lakhs of Rs.)	% per annum of average outstandings		Out-standings (lakhs of Rs.)	% per annum of average outstandings	
		Servicing cost*	Interest income		Servicing cost*	Interest income
	7	8	9	10	11	12
1. Small Scale Industries ..	2·28 (*15·4*)	*2·96*	*9·24*	1·10 (*20·8*)	*3·52*	*8·06*
2. Large and Medium Scale Industries	4·65 (*31·4*)	*0·46*	*8·14*	1·14 (*21·6*)	*0·49*	*6·77*
3. Direct Loans to Farmers ..	2·35 (*15·9*)	*2·86*	*9·43*	1·09 (*20·6*)	*3·00*	*10·03*
4. Personal and Professional Loans	1·62 (*10·9*)	*2·39*	*9·02*	0·86 (*16·2*)	*3·06*	*8·44*
5. Other Advances	3·92 (*26·4*)	*2·57*	*8·53*	1·10 (*20·8*)	*3·65*	*9·07*
6. **Total (1 to 5)**	**14·82** (*100·0*)	*2·00*	*8·71*	**5·29** (*100·0*)	*2·72*	*8·44*

Figures within brackets indicate percentages to total.
* Head Office costs loaded.

STATEMENT 12·3

STATEMENT SHOWING THE COMPARATIVE DATA OF AVERAGE BANK BRANCH ACCORDING TO POPULATION GROUPS—(Contd.)

'C'—*REMITTANCES AND BILLS*

(For the quarter ended March 31, 1970)

	GROUP I			GROUP II		
	Amount (lakhs of Rs.)	Number	Servicing cost per item*	Amount (lakhs of Rs.)	Number	Servicing cost per item*
	1	2	3	4	5	6
PART I						
Remittances						
1. Drafts						
(a) Issued	47·64	839	4·61	45·66	1578	3·13
(b) Paid	126·40	3198	1·57	42·12	1600	1·68
Total (a) + (b)	—	—	**6·18**	—	—	**4·81**
2. M. Ts.						
(a) Issued	28·86	225	4·96	10·22	235	3·20
(b) Paid	38·03	521	2·03	22·76	304	1·37
Total (a) + (b) ..	—	—	**6·99**	—	—	**4·57**
3. T. Ts.						
(a) Issued	193·57	154	10·21	79·53	93	7·80
(b) Paid	319·85	238	5·02	29·91	64	4·75
Total (a) + (b) ..	—	—	**15·23**	—	—	**12·55**

	GROUP III			GROUP IV		
	Amount (lakhs of Rs.)	Number	Servicing cost per item*	Amount (lakhs of Rs.)	Number	Servicing cost per item*
	7	8	9	10	11	12
PART I						
Remittances						
1. Drafts						
(a) Issued	31·06	1222	3·17	8·95	492	4·29
(b) Paid	15·07	523	2·10	4·45	209	3·00
Total (a) + (b)	—	—	**5·27**	—	—	**7·29**
2. M. Ts.						
(a) Issued	5·41	214	3·57	1·73	92	4·02
(b) Paid	1·98	94	1·98	0·77	45	2·27
Total (a) + (b) ..	—	—	**5·55**	—	—	**6·29**
3. T. Ts.						
(a) Issued	20·80	36	8·47	6·30	17	13·82
(b) Paid	21·92	43	3·77	2·25	10	8·20
Total (a) + (b)	—	—	**12·24**	—	—	**22·02**

STATEMENT 12·3

STATEMENT SHOWING THE COMPARATIVE DATA OF AVERAGE BANK BRANCH ACCORDING TO POPULATION GROUPS—(Concld.)

'C'—*REMITTANCES AND BILLS*—(concld).

(For the quarter ended March 31, 1970)

	1	2	3	4	5	6
PART II						
Bills						
1. Cheques and Clean Bills						
(*a*) Negotiation/ Collection	64·07	2266	2·94	38·54	1956	1·86
(*b*) Remittances ..	48·54	1615	2·51	28·21	1083	2·65
Total (*a*) + (*b*) ..	—	—	**5·45**	—	—	**4·51**
2. Other Demand Bills						
(*a*) Negotiation/ Collection	24·66	896	4·74	16·92	392	4·53
(*b*) Remittances ..	39·45	506	6·26	31·08	1063	4·30
Total (*a*) + (*b*) ..	—	—	**11·00**	—	—	**8·83**
3. Usance Bills						
(*a*) Negotiation/ Collection	14·99	406	4·14	2·78	48	4·69
(*b*) Remittances ..	7·52	148	8·93	3·64	88	5·85
Total (*a*) + (*b*) ..	—	—	**13·07**	—	—	**10·54**

	7	8	9	10	11	12
PART II						
Bills						
1. Cheques and Clean Bills						
(*a*) Negotiation/ Collection	14·47	670	2·35	4·77	208	3·51
(*b*) Remittances ..	13·13	681	2·30	2·77	200	3·21
Total (*a*) + (*b*) ..	—	—	**4·65**	—	—	**6·72**
2. Other Demand Bills						
(*a*) Negotiation/ Collection	14·20	255	3·58	5·92	80	3·24
(*b*) Remittances ..	12·37	618	3·57	3·49	146	4·06
Total (*a*) + (*b*) ..	—	—	**7·15**	—	—	**7·30**
3. Usance Bills						
(*a*) Negotiation/ Collection	1·52	22	2·41	0·07	1	12·00
(*b*) Remittances ..	0·93	33	4·88	0·14	8	6·63
Total (*a*) + (*b*) ..	—	—	**7·29**	—	—	**18·63**

* Head Office costs loaded.

Chapter 13

INFORMATION SYSTEM FOR BANKS

Introductory

13.1 One of the major organisational weaknesses of the banks in India is the absence of a well designed management information system. It is true that some banks have set up an Economics and Statistics Department or Section. However, these departments have not been given any responsibility as regards collection and processing of data useful from the point of view of management. Partly this is due to the reluctance of bank managements to incur expense on activities which do not appear to be immediately productive. But it would not be an exaggeration to say that most bank managements were unaware until recently of the usefulness of a properly devised management information system. This problem has been studied in detail recently by the Study Group on Information Systems of the National Institute of Bank Management. The Study Group on Banking Costs appointed by the Commission has also considered it in its Report. The present chapter is based on the reports of these two Study Groups.

13.2 A scientifically organised information system should be such as to provide in compact, comprehensive and condensed form all the requisite information necessary for the purposes of policy formulation, performance evaluation, control, economic analysis, etc. Moreover, information must become available to the Manager on a regular and prompt basis in a form that will serve him as an effective aid to decision-making and in pointing up signals of approaching events and developments. Such a system differs fundamentally from the task-oriented information system which caters to the satisfaction of the immediate specific information needs of some separate parts of an organisation. The integrated approach to developing a Management Information System (MIS) takes into consideration the regular needs of all the various parts of an organisation and weaves these separate needs into a single information system.

13.3 At the same time the MIS is not a static system ; it must be moulded from time to time so that changing information needs of a developing and dynamic organisation are reflected in the reshaped MIS. In so far as a given MIS leads to better organisation or a larger and more developed organisation, the MIS itself may need to undergo suitable changes. This dynamic aspect of the MIS needs some stress lest the MIS evolved at one point

of time is considered good for all times. At the same time, frequent changes and changes in an *ad hoc* fashion in the information system have to be avoided.

13.4 Three important factors relevant to the MIS are the following :

(*i*) *Volume of information*

The Manager should not be burdened with large volume of data. It is important that only the most significant facts are brought to his notice. Exceptions to the general pattern should emerge clearly so as to be immediately discernible.

(*ii*) *Timing*

Any set of information which is brought to the notice of the Manager long after it has ceased to be useful is wasteful. Promptness in presentation of priority type of data is, therefore, essential. Data for immediate purposes and for long-term planning and development have to be segregated and their periodicity, timings, etc., should be properly arranged for.

(*iii*) *Reliability*

The accuracy with which the information is supplied should depend on the use to which information is put, the time taken to collect the information, and the costs of collecting and processing such information. Data with 100 per cent accuracy supplied long after they were needed serve little purpose. It is also not necessary to expend large resources on achieving a large measure of accuracy if the use of information does not demand that much accuracy. It is sufficient that such data have a *known* margin of error so that in interpreting the results over time or space, these known margins of errors can be allowed for.

Information Needs of the Banking Sector

13.5 The information needs of the banking sector have to be studied against these characteristics of the MIS. The requirements of bank management for information, for the purpose of taking timely decisions regarding the operations, depend to a considerable extent on the pattern of a bank's organisational structure and the extent of delegation of authority. Broadly, however, the MIS for the banking sector has to serve the following purposes :

(*i*) to ensure from time to time that the requirements prescribed by the law relating to banking are satisfied ;

(*ii*) to ensure satisfactory implementation of the monetary and credit policy ;

(*iii*) to ensure a high level of operational efficiency ; and

(*iv*) to provide information to the general public regarding the working of the banking sector.

Three levels requiring such information can be recognised in the sector, *viz.*, the Reserve Bank of India, the head offices of the commercial banks and the branch offices. It is for these three levels that an information system needs to be constructed.

13.6 The purposes for which the Reserve Bank of India collects information from the banks can be broadly stated as under :

(*i*) management, regulation, effective control of and supervision over the monetary and credit system, including debt management ;

(*ii*) management of the foreign exchange resources ;

(*iii*) meeting the special needs in respect of analytical, policy-oriented studies ;

(*iv*) informing the interested public about the progress of the banking industry ; and

(*v*) in the context of an integrated data structure, a feed-back system of the processed information in the form of meaningful tables to the banks or their branches.

13.7 As regards an individual bank, the information needs are two-fold : (*i*) those complementary to the needs of the Reserve Bank of India, and (*ii*) data for control and performance evaluation of the branches and of the bank as a whole. This would be particularly so in regard to achievements of bank branches in regard to deposit mobilisation, advances to priority sectors and so on and for cost control and assessment of branch or departmental efficiency. In between the head office and the branches, several banks have regional offices. Their needs are of the same type as that of the head offices except that the information is needed for branches under the control of respective Regional Managers. Since regions differ from bank to bank, it would be difficult to prepare break-ups at the regional level on an uniform basis for all banks. But, the information system should, so far as geographical levels matter, provide for tabulations at State and district levels apart from the all-India level.

13.8 The MIS for the banking sector should be in a position to cater to the information needs of the various levels identified above in respect of the following areas:

(*a*) Banking Services—

(*i*) Deposits, (*ii*) Advances including Bills, (*iii*) Foreign Exchange, (*iv*) Remittances, and (*v*) Other Services ;

(*b*) Geographical Spreads ; and

(*c*) Operational Efficiency—

(*i*) Profitability of different services, (*ii*) Profitability of Branches, (*iii*) Management of Liquid Assets, and (*iv*) Personnel.

At all levels, the information should provide a basis for control, evaluation of performance and development of business.

Present Position—Some General Aspects

13.9 Before discussing further details of such a MIS, it would be useful to examine the present position regarding the flow of information in the banking sector. Information flow as at present organised in the banking system falls into two broad categories: (*i*) Information flow between the Reserve Bank of India and the banks or bank branches, and (*ii*) Information flow within individual banks, *i.e.*, between the head office and regional offices, between the head office and branches, and between regional offices and branch offices under their respective jurisdiction. The purposes for which the Reserve Bank of India calls for certain returns from the banks or their branches have already been enumerated in paragraph 13.6 earlier. These returns are classified under two heads—those stipulated under the statutes and those specified by the Reserve Bank of India for analytical, appraisal and control purposes. A statement detailing the returns presently in vogue is placed at Annexure 13.I.

13.10 There has been awareness on the part of the Reserve Bank of the need for rationalisation of the information collected by it from the banks, and it has gone into this aspect from time to time. In 1957, certain recommendations were made by a sub-committee of the Inter-departmental Committee on Banking Statistics set up by the Reserve Bank for this purpose. Another Committee set up in 1966 made certain recommendations in 1967 in regard to the developments which had taken place in the field of banking since 1957. It recommended elimination of certain forms and reduction in frequencies of some others. It also went into those important aspects of comparability of the data collected in various returns, which continued to be vitiated on account of difficulties in interpretation of such terms as capital, reserves, borrowings, etc. The reference dates of the returns also were examined. A number of the recommendations submitted by the Committee have been implemented. However, those which relate to changes in the format of statutory returns have not been implemented because they involve changes in legislation. We recommend that instead of the present practice of prescribing the format of such returns under the statute, the Reserve Bank should be given powers to prescribe it. If this recommendation is adopted it will be easy to implement the remaining recommendations. If for any reason it is not found feasible to adopt the above suggestion, then we would recommend that amendments be made to the statutory formats of returns as recommended by the Committee. In 1968, the Working Group on Banking Statistics suggested the introduction of a return known as the Uniform Balance Book (UBB). This return has been examined later in this chapter.

13.11 As regards the information flow within individual banks, different banks have different systems. However, the one common feature of all

these systems is that there has not been any effort to use the data already available in the forms prescribed by the Reserve Bank of India, although a large part of these data could be so used. This has inevitably led to considerable duplication of effort in collecting data, lack of integration in the information structure and considerable delays in the Reserve Bank of India receiving the information it needs from the banks or their branches. The quality of data also suffers to some extent. The delays arise because of the feeling that data needs of the Reserve Bank of India are quite different from those of the banks themselves. Also while information on income and expenses is compiled in the usual manner, there is no systematic and regular compilation of information which would enable the management to evaluate the profitability of various services, the operating efficiency of the various departments, or the adequacy or otherwise of the prices charged for the services rendered to the customers. It is the purpose of the MIS to see how best the data needs of different units and at different levels can be integrated into one single pattern. Once it is realised that the same data can be used for internal purposes, it may be possible to ensure uniformity, accuracy and timeliness in the reporting of data to various levels.

13.12 Apart from this, duplications also arise from the fact that different departments of the Reserve Bank and the Government and of the banks themselves, each without being aware of what information the other departments are calling for, prescribe their own proformae. This is the result of a task-oriented system. Inadequate appreciation on the part of every one concerned as to what is involved in collecting information from banks with an ever-increasing branch net work has only led to further confusion. Different authorities ask for information which varies only slightly in content. While these authorities require properly processed information, the banks owing to the absence of adequate organisation at their end are unable to handle these requests in an efficient manner. Information called for *ad hoc* purposes, subsequently also tends to be called for regularly although no use is made of such information at a later stage. There is, therefore, great need at the Reserve Bank of India and in the Government as also in each individual bank, for well-defined points which prescribe what returns may be called for, receive these returns and from where all information is disseminated to various user departments.

13.13 Another point that needs to be emphasised is that statistical work needs trained staff right from the evolving of the proformae, to the stage of processing, tabulating and analysis. It is necessary that each bank has a statistical cell which is responsible for : (*i*) planning and developing statistical series; (*ii*) securing timely and accurate statistics in periodical returns; (*iii*) training branch level staff concerned with this work ; (*iv*) rationalising the data needs and returns ; and (*v*) processing and analysing the trends and patterns in the data. This cell should be attached to the Planning or Development Department and not to any operational department. No

new form or return should be prescribed without reference to this cell. When such references are received, the cell will examine whether the required information is not already available elsewhere, and if not, the same can be obtained by slight modifications, involving marginal efforts. It is also necessary that there should not be frequent transfers of clerical and other non-officer staff engaged in statistics work, as otherwise the statistical machinery would be weakened.

13.14 At pesent, the flow of information in the banking sector is usually from lower levels to higher levels. There is almost total absence of a feed-back of processed data from higher to the lower levels. Such feed-back needs to be organised with a view to involving the Branch Managers and others concerned at lower levels of operations in judging their performance on the basis of facts and figures. This aspect is further developed later on. It is important to note in this regard that with deeper penetration of banking facilities away from the central office, rapidly increasing number of small accounts of advances and deposits, wider spread of banking habits and more and more delegation of authority, the information system needs to be quicker, more responsive and communicative than has been the case hitherto.

13.15 The spread of banking facilities is increasing rapidly through branch expansion, and the number of branches has already crossed 12,000. It is, therefore, necessary that, wherever possible, and particularly in situations where 100 per cent accuracy need not be aimed at, collection of figures by the Reserve Bank of India or the Government is organised on a sample basis. This will have the effect of reducing costs and providing *known* margins of errors. Such data will necessarily have to be classified in a somewhat broad manner and too many detailed cross-classifications may not be possible. Sampling will have an advantage where information is to be classified in broad categories. Secondly, where quick information is required for control purposes, it is sometimes possible in view of the skew distribution, *i.e.*, concentration of particular activities in a few large branches or a few geographical areas, to collect information from only a small purposive sample of branches to obtain, say, 80 per cent of the total information. This would save time, effort and costs. This aspect is discussed in detail later on in the case of data relating to deposits and advances.

13.16 If the building up of an integrated system is to succeed, it seems necessary to see that banks increasingly take to codification of accounts and use high speed machinery for processing the data. These two aspects are important from the point of view of quicker decisions by the monetary authorities and the bank managements and for organising a proper and prompt feed-back system which facilitates improving the performance at the operational levels. Furthermore, even the system of ledger keeping should be such that information can be readily culled out for different sectors of the economy such as Government companies, private sector limited com-

panies, small industrial units, agriculture, small business, small transport, education, etc. If the work is already so organised in a bank that different divisions handle these different activities, the data would be readily available according to these sectors. But if this is not so, then ledger keeping has to be oriented to this need progressively over time.

Present Information Flow and Recommendations

13.17 Having reviewed the general aspects of the presently organised information flow, we may now consider the information flows in different functional areas, how they are presently organised and what needs to be done to have an integrated flow structure for all levels.

Banking Services : Deposits

13.18 Bank branches submit at present to their head offices, the monthly position on deposits as on an appointed day or date, according to the category of deposits (current, savings, fixed). In addition, they used to submit a monthly return on deposits to the Reserve Bank of India (Form M-1) giving the total and break-up of deposits according to the category of account. This is now being asked for on a quarterly basis in Form Q-1. The information on deposits has basically to serve two purposes. First, the assessment of performance in regard to the deposit mobilisation and second, identification of potential areas. A periodical assessment of the progress in various types of deposits is, therefore, absolutely necessary. Information on ownership pattern of deposits is also necessary although not much attention is paid to this aspect by the banks. The information flow in the area of deposits should, therefore, be based upon the following:

(*i*) A monthly return by all branches of the bank giving total deposits under various heads together with the number of accounts and the figure for advances on the lines of Form M-1 with certain modifications. With the uniform Branch Codes now being introduced, it should be possible to generate tables giving deposits, by population groups, by districts and States and by banks, as also their relevant cross-classification. It would suffice if detailed cross-classifications are tabulated at quarterly intervals.

(*ii*) Additionally, there should be an annual return on the lines of UBB giving figures for individual accounts. Since, however, the number of deposit accounts is 18 to 20 times that of the advance accounts and over 75 per cent of accounts with deposits below Rs. 1,500, account for only about 10 per cent of total deposits while at the other end of the scale about 9 per cent of the depositors with more than Rs. 5,000 deposits each, account for 72 per cent of the total bank deposits, it would suffice if the data were collected on a sample basis. Thus, information could be collected for all branches for all deposit accounts showing a balance of say, Rs. 5,000

or over. For the rest it could be collected only from a sample of branches. The object would be to build up a complete picture of deposit distribution among regions, among different classes of ownership, and by size of deposits. The patterns of interest rates of deposits can also be built up. Further, for the study of the velocity of bank money, summation of debits can be incorporated in the return. Such a return should be obtained once a year. A detailed study, however, has to be made for determining the sampling pattern and the Department of Statistics of the Reserve Bank of India could be requested to take upon itself the task of evolving a suitable sampling design.

(*iii*) For getting quick information as regards changes in deposits, by category of deposits, it would suffice to keep under constant observation figures of certain large branches, since about 25 per cent of the largest branches account for about 80 per cent of total deposits. It has to be noted, however, that this would give an idea about the overall changes and not at regional or ownership levels.

Advances

13.19 Data on advances form a key element in the MIS and the absence of integrated information flow is keenly felt in this sphere. The fact that information on advances constitutes one of the most important aspects of banking statistics can be seen from the plethora of returns prescribed by the banks and the Reserve Bank of India. Several departments of the Reserve Bank of India call for information on advances. For instance, the Industrial Finance Department calls for information on advances to small scale industries; the Credit Guarantee Corporation calls for information on advances to other priority sectors covered by the credit guarantee scheme; the National Credit Council's return on advances continues and the Credit Planning Cell of the Reserve Bank of India collects similar information (but in a somewhat different form) on advances to priority sectors; the Economic Department of the Reserve Bank of India till recently called for information on advances by security in Form 7 which used to be a fortnightly return and later became monthly but has now been discontinued. The Credit Information Bureau of the Reserve Bank of India has a special form of its own. Since nationalisation, the Government of India also calls for information on the priority sectors on a monthly basis. Then, of course, there is the UBB return which, if successful, can give almost all the information on advances that is being collected by different departments of the Reserve Bank of India and by the banks. The UBB was introduced on the recommendations of the Working Group on Banking Statistics in 1968, with a view to bringing about an integrated approach in the collection of data on advances. The latest thinking in the Reserve Bank of India appears to be to call for information in only a single set of forms for the priority sectors with a quarterly periodicity.

It would appear that till such time as the UBB return is not received by the Reserve Bank of India regularly and in time, the priority sector forms may have to continue. The UBB return is furnished by branches whereas the returns for advances to priority sectors are received from banks directly. State-wise break-ups are also given by banks at the bank level in these priority sector returns as required by the Government of India. It is pertinent to point out in this connection that although by calling for returns at the bank level (as in the case of priority sector forms) it appears that much of the difficulties and labour inherent in the compilation of branch-wise returns is avoided by the authority calling for the returns, the gain is apparent rather than real. For, so long as the banks do not have properly organised statistical departments, it is difficult to check errors in compilations at various levels, *viz.*, branch, region and bank when figures are received in a consolidated form upto bank level. Secondly, the larger the bank the greater is the load on it of supplying information. Invariably, it requires considerably more time for consolidation and this causes long delays in the receipt of information by the authorities. Hence, it would be best for the collecting agencies to obtain figures from the lowest level (*e.g.*, individual account entries, branch level, etc.) for as many areas of information as possible. A comparison of figures from sample branches of total advances obtained from UBB returns, which give information in terms of individual account entries, with the aggregate totals provided by branches in Form 7 has confirmed that, at the branch level, errors in totalling occur. When information is submitted at bank level, errors in totalling, coverage, classifications, etc., both at branch level and bank level may go undetected. Furthermore, different banks use different methods of adjustments for their respective non-responding branches. Even the same bank may use different methods of such adjustments at different points of time. All this will be unnoticed and undetected if information is collected only at bank levels. Compilations based on UBB returns will reduce such avoidable errors.

13.20 A basic return like the UBB is, therefore, required. Unfortunately, the present format of the return has increased the work-load at branches to an appreciable extent and the position regarding the receipt of data from the branches by the Reserve Bank of India in the present format is somewhat discouraging. The following difficulties seem to be experienced by the branch offices :

(*i*) Although the return is supposed to be a copy of the bank's balance book, due to the format thereof, it has to be prepared separately, thus adding to the work-load. Again, even if the format is redesigned, for type of accounts other than Cash Credit, Demand Loans and Term Loans, it cannot be a fan-fold of balance book.

(*ii*) Information regarding organisation, occupation, purpose, type of security, rate of interest, etc., of the account, which is more or less permanent, has to be repeated every month for each account.

This involves considerable duplication of labour thereby resulting in late submission of returns.

The UBB form needs, therefore, to be redesigned in a manner which would enable banks to use it as a fan-fold of the balance book. A procedure should also be developed whereby the fixed information need not be repeated every month. For this purpose, an account numbering system will have to be developed so that each account could be given a reference number at the time of opening the account. The fixed information in respect of each account should be submitted to the Reserve Bank of India as soon as it is opened and in monthly returns the reference number and the amount outstanding will be supplied. The fixed information can be updated on an yearly basis. A specimen of the redesigned form is placed at Annexure 13.II.

13.21 Having considered the various aspects of the collection of figures of advances, it is recommended that the banking system should have the following data flow structure :

(*i*) The UBB should be the main form for detailed information and for analytical purposes. When this form is redesigned to have an account number as explained earlier, all individual advances can be very speedily recorded in the UBB returns. The processing will also be quicker. However, in view of the markedly skew distribution of advances by size, it may not be necessary to prepare tabulations on the basis of all entries. The suggestion that all accounts should be entered in the UBB is only to eliminate the possibility of omitting some entries in case a cut-off point is prescribed. Such a cut-off point can be more conveniently prescribed while processing the data.

(*ii*) The frequency of the modified UBB return should be monthly. The processing of data may be done so as to have tabulations based on all entries twice a year (*e.g.*, March and September) and those based on loans and advances of Rs. 10,000 and above for two other quarters of the year (June and December). A monthly tabulation of all advances of Rs. 1 lakh and above should be carried out. In addition, on the basis of the monthly deposit-advance form discussed under the heading of deposits (paragraph 13.18), the figure of total advances should be obtained, classified according to district, State and for all-India population groups, etc. As already suggested, quick feed-back should be arranged for.

(*iii*) For the purposes of watching the movement of advances against the securities of commodities under the selective credit controls, it would suffice if 800 to 900 *largest* branches relevant to sensitive commodities, *i.e.*, commodities subject to selective credit control are selected for quick information purposes and tabulations of advances by security are prepared for these selected branches. For each security, a purposive sample of branches can be selected to give information for about 80 per cent or more of total

advances against each given important security. Annexure 13.III gives the number of largest branches in respect of specified commodities, which make up for about 80 per cent of total advances against such securities. The selection of branches has to be done afresh on the basis of the branch-wise tabulations of the immediately preceding census of advances.

(*iv*) The data collected for priority sectors should not be in different sets of forms for the purposes of the National Credit Council and Credit Planning Cell, the Government and for the use of the credit guarantee schemes. A common set of forms as part of the UBB should be evolved for each priority sector. These forms should all be received in one department in the Reserve Bank of India from which information can be made available to different agencies.

(*v*) Banks should also base their information collection on these forms as far as possible and refrain from prescribing additional forms. Though there may be arrangements for feed-back of data on the basis of tabulations of the UBB, banks may need to compile data on advances to priority sectors according to district, region and State.

(*vi*) The structure of this return lays stress on purpose-wise analysis of bank advances. At present the banks' system of accounting is such that the ledgers are according to the type of account, *viz.*, Cash Credit, Demand Loans, Overdrafts, etc. With a view to enabling banks to submit purpose-wise returns without difficulty as well as to underscore the basic change in lending policy, the accounting system of banks should itself be changed to maintenance of ledgers according to purposes (*e.g.*, Agriculture, Small Scale Industries, etc.) rather than according to the type of account (*viz.*, Cash Credit, Overdraft, Term Loan, etc.). This change has to be done gradually and would need loose-leaf ledgers. Where the work is organised by the sectors, such ledgers can be adopted, without any difficulty.

(*vii*) For the banking system as a whole, the Reserve Bank of India and for its own purposes each individual bank should constantly keep under review the movement of hypothecated and pledged commodities (in physical terms), particularly the speculative commodities or those brought under selective credit control, on the basis of stock statements submitted by borrowers. Study of variations in these movements will be useful for control as well as analytical purposes.

(*viii*) The information from the UBB can be used for the purposes of the Credit Intelligence Bureau recommended in Chapter 11 on Bank Operating Methods and Procedures. A convenient way of organising the work of this Bureau would be to make it work in co-operation with the organisation which processes the data from the UBB.

(*ix*) In the context of a considerable increase in advances to priority sectors, it will be useful to develop systems of credit scoring which can be

used for considering proposals from borrowers in these sectors. In the developed countries, such systems are used particularly in connection with consumer loans. They are based on the results of statistical research on the association between personal data relating to the borrowers and the recovery of the loans. The Credit Intelligence Bureau should organise such research. The data from the loan applications of the UBB returns would be very helpful for this purpose.

Foreign Exchange Business

13.22 Under the powers vested in the Reserve Bank of India for the regulation and control of foreign exchange, the Reserve Bank has made it obligatory for the authorised dealers to submit statements, in prescribed forms, of the sales of foreign exchange supported by the relevant application forms. The Reserve Bank also receives returns from authorised dealers with regard to the acquisition of foreign exchange. These forms are scrutinised in the Exchange Control Department of the Reserve Bank to ensure that there is no breach of the exchange regulations. The returns are also used for the compilation of statistics relating to India's balance of payments.

13.23 The information tabulated by the Reserve Bank of India for the purpose of compiling the balance of payments data would be of considerable use to individual banks in judging their performance *vis-a-vis* the total volume of work handled by all the banks. At present, there is no systematic arrangement of feed-back of the information assimilated in the Reserve Bank of India for the use of individual banks. As a result, full use of the data is not being made from the point of view of improving the efficiency of the banks. A beginning can be made in this field by supplying to each bank consolidated statements showing the various types of exports, imports and other business handled by it as a proportion of the total.

Remittances

13.24 At present, information relating to remittances of various types is not available on a region-wise basis, except the data on telegraphic transfers issued and paid through the Reserve Bank, regularly published by the Reserve Bank. It would be useful to compile information on the number and amount of remittances of main types issued and paid by the various branches. This will give valuable information on the geographical pattern of money flows. In the case of individual banks, no doubt, the information regarding remittances issued and paid flows in into the departments or sections in the central office of the bank handling inter-branch reconciliation. This is the proper point at which the banks can suitably classify the information and supply it to the authorities. In view of the fact that, with rapid expansion of bank branches, banks have to make use of high speed machines for handling inter-branch reconciliation, it should not be difficult for them to prepare such consolidated tables for the public giving information on geographical pattern of these flows.

Other Services

13.25 On this subject too no information is available at present. Currently the volume of such services is very small. Hence it is not necessary at this stage to make any arrangements for collection of information relating to the volume of these services.

Geographical Spread

13.26 In order to ensure that the expansion of banking in hitherto unbanked areas is expeditiously achieved, a proper control and information system in this area has to be organised. The purpose of the system should be to ensure speedy opening of branches according to the plan. The reporting system should be geared to supply information on the progress of various activities which have to be completed before opening of the branches. A proper control should be maintained and feed-back organised, which would result in identifying critical areas or activities. An important aspect of this matter is that each branch is properly briefed on the type of information it has to supply to the various authorities and its frequency. Standard booklets giving the various proformae and instructions on filling them up should be prepared and supplied to the branches.

Operational Efficiency

13.27 The information flow on the operations of units (whether branch or groups of branches or bank as a whole) has multiple utility. It brings out the progress of the unit and can also be used for the evaluation of performance of the manager and the staff. The usual manner of compiling income and expenditure statements and working out profit or loss of bank branches or banks has only a limited utility in this context. It does not help in accurate determination of the costs of and income from the different services rendered by banks. Also, the present methods of working out branch profitability are not properly related to the overall policies of the banks in regard to deposit mobilisation, advances to priority sectors, etc. What is, therefore, needed is an integrated costing and financial reporting system which enables computation of costs incurred and income earned at the various levels of managerial decision-making in a bank.

13.28 The costs have to be analysed in stages, that is, they should not be grouped together irrespective of their behaviour, and correct yardsticks evolved for evaluating them. The MIS should clearly bring out the inter-relationships between the levels of volume of business, costs and related income so that the managerial decision-making leads to improved profitability. For this purpose, the accounting system of banks in India should be re-oriented not by superimposing a separate departmentalised costing system on the existing reporting systems of the banks but by the blending of the cost and financial accounting into an integrated system which combines and

co-relates the collection, analysis, interpretation and reporting on each of the three aspects, *viz.*, the output, cost and income.

13.29 With the help of such a system, central offices of banks would know, not only the position relating to deposit mobilisation or bank credit but also the degree of efficiency with which the bank and the branches are functioning, the weak spots in working and the extent of success of remedial measures taken to remove them.

13.30 For this purpose, a regular record will need to be maintained at the branch level of all physical outputs, *e.g.*, vouchers, number of drafts handled, etc., according to the type of services besides the data on deposits, advances mentioned earlier. In addition, it is necessary to organise a sample survey on a regular basis to obtain accurate estimates of unit costs and income for the different types of outputs for representative types of branches. Such estimates of unit costs and income, used in conjunction with the record of the physical outputs and the monetary data and of the earnings and expenses relating to the branches, will enable evaluation of efficiency and profitability of branches. The sample survey should be conducted by a central agency which may be either the Reserve Bank of India or an agency set up by it in collaboration with the scheduled banks—both commercial and co-operative. This Agency should prepare the sampling frame for commercial banks and co-operative banks, conduct pilot studies to effect necessary improvements in the sampling frame, collect suitable data and analyse it. The methodology followed by the Study Group on Banking Costs in the survey conducted by it would be useful as a starting point though it can be improved upon in the light of further experience. The Agency should advise each bank of the costs and income for repesentative types of branches and also the average costs and income for each of the large and medium sized banks taking into account the details of their branch network. It should also calculate all-India averages for the various costs and income so as to help the authorities in framing their policies in regard to interest rates on deposits and advances and the various charges levied by the banks.

13.31 While the Agency will be the source of accurate assessment of costs, the results will take some time before they become available to banks and their branches. In the meantime, in order to have a rough and ready indication of the way branch costs are moving, all branches should be asked to submit quarterly returns showing the particulars of their outputs. The head office can work out what the total costs for the branch should have been by using the unit cost figures for the different activities supplied by the Agency, for the representative branch type. The ratio of the actual cost at the branch to the estimated costs would be the cost index for the branch. This will provide the management with a fairly good idea of the efficiency at branch level and would enable it to take appropriate corrective action.

Management of Liquid Assets

13.32 The liquid assets of banks comprise balances maintained by them with the Reserve Bank of India, the State Bank of India or a notified bank, cash held by themselves and approved securities. It is in respect of the cash held by themselves at the various branches and of investments in approved securities that banks can improve profitability through the use of proper techniques. As regards holdings of cash, as mentioned in Chapter 12, the techniques of inventory control can be applied with suitable modifications. The MIS for this purpose can consist of collecting regular information on holdings of cash by the important branches accounting for, say, 75 per cent of the cash balances. This together with the data on types and amounts of deposits, advances and remittances would enable appropriate action. As regards investments, while banks in the Western countries have developed the information system required for efficient portfolio management and 'off the shelf' programmes are available for this purpose, it appears that, in view of the statutory and other limitations under which Indian banking industry currently operates, there is not much need for such a system. The present arrangements are adequate both at the Reserve Bank level and at the individual bank level.

Use of Managerial and Financial Ratios

13.33 Measurement of operating efficiency and of profitability through ratios has also been an effective tool in manufacturing industries, particularly for comparison between different units. Such measurements have certain distinctive advantages over studying the total figures by themselves. In comparing inter-branch or inter-bank efficiency, merely the amount of profit, or for that matter the size of deposits, will not give a true measure of profitability. These can be ascertained only through certain ratios, such as management ratios and financial ratios which can be worked out at intervals and the averages worked out for the year for comparison either at inter-branch level or at the inter-bank level. The Study Group on Banking Costs has recommended certain ratios which, with suitable weightage on the basis of their importance, can be utilised for rating the efficiency of branches together with their position as revealed by internal audit and inspection of the branches.

Budgetary Control

13.34 Operational efficiency can be achieved through a proper planning of the year's activities sufficiently in advance and by fixing targets for performance and income, and limits for expenditure. This requires preparation of budgets and establishment of a good system of budgetary control. The budget should spell out the targets to be achieved in respect of various operational activities and income and expenditure. These targets should further be analysed into such details as is necessary in the light of the prevalent

policies of the bank and the monetary authorities. Besides the targets, a system of budgetary control ensures a direct control on the various income and cost factors ; probes into the reasons for the deviations from targets and takes corrective action where necessary ; promotes a feeling of cost-consciousness and restricts expenditure to the minimum; encourages healthy competition between branches ; and helps in reviewing current policy and in determining future policy.

13.35 The Study Group on Banking Costs has suggested a system of budgetary control, the salient features of which are mentioned below:

(*i*) The budget is related to the policy to be followed during a given period and in determining this policy there should always be a 'start-off-point' or the Budget Factor to which all the other activities will be co-related. For banks, this will naturally be the deposits to be mobilised.

(*ii*) A budget fixes the responsibility to work to a target and this responsibility is delegated to an individual. The area of authority and of operation of this individual determines the budget centre. It is important that in any organisation, budget centres should be linked with the level of responsibility delegation. In banking business, a 'branch' would be the ideal budget centre since most of the activities of a bank are concentrated in branches. However, in the case of certain activities like investments, legal matters, etc., the head office will be the budget centre.

(*iii*) In the case of banks, budgets may be prepared for the calendar year with a system of monthly reporting. On the basis of business survey reports received from the branches and the prevailing monetary policy, the head office of each bank should formulate its overall performance targets for the year and invite each branch to fix its own share of the overall targets through budgets prepared separately for different types of activities. In regard to the activities carried on at the head office, the head office should itself prepare the budget. From the consolidated budget, the head office should prepare :

(*a*) Funds Flow Chart based on the consolidated projections of deposits, advances, etc., to estimate the overall need for investments and borrowings during the budget period for the bank as a whole[1], and

(*b*) a forecast profit and loss account for and balance sheet as at the end of the year and at the end of each quarter for the purpose of check up.

13.36 A reporting system on budget performance is important for localising and eliminating unfavourable variations from targets. Every budget

1 The method of preparing this chart (taking into account sophisticated method of cash management such as the one developed in the study by Kumari Pant) has been described in brief in Chapter X of the report of the Study Group on Banking Costs. Kumari Pant's study is available in the volume containing technical studies for the Banking Commission.

report should compare (on a monthly basis and cumulatively), the targets against the actuals, bring out the variations, classify them into those due to controllable and non-controllable factors and fix up the responsibility on individual executives for initiating necessary corrective actions. Later on, when sufficiently accurate and realistic standards have been established and have found willing acceptance at all management levels, reports need not be elaborate and should contain only abnormal variations from budgeted figures. The budget reports received from the branches and the head office should be consolidated monthly so that a continuous watch on the performance of the bank as a whole is maintained. The banks' Boards of Directors should review each month the consolidated budget reports in order to compare the actual working results with targets.

13.37 The exercise of budgetary control should be made as simple and understandable as possible. The system should be established on the highest possible level of motivation and not be used as a 'pressure device' to goad people to greater effort. For achieving greater profitability through better management, the willing co-operation of all management levels is essential and success in this regard depends upon the ability of the top management to infuse understanding of and identity with the goals and objectives of the institution in the employees of different categories.

Personnel

13.38 As mentioned in paragraph 14.6 of the chapter on Management Development in Banks, an up-to-date personnel inventory is an important tool in manpower planning. It constitutes a list of all job positions in a bank and the names of present incumbents and also contains details of each officer in terms of age, education, experience, training, etc. The performance evaluation also should be linked up with this data ; the quantification of performance evaluation will, of course, require study in depth. In short, it is a quantitative and qualitative information on manpower resources of banks and thus is an integral part of the MIS. Once such data are available, by making comparison with the requirements it will be possible to make manpower projections.

Measurement of Productivity of Staff

13.39 For measuring productivity of the employees, it will be necessary to fix man-hours required (officer and clerical) for various types of jobs. This should be done by the bank itself for internal use, *i.e.*, inter-branch comparison and by the central agency in respect of representative branches for facilitating comparison of inter-bank efficiency. The ratios of man-hours employed to man-hours required would reveal whether a branch has more or less of employees of the two categories for each of the different activities. Once this is done, it should be the responsibility of the Personnel Department to evolve methods by which a reduction in unit cost can be brought about.

Special Studies

13.40 Information originating from the banking system is also of immense use to other agencies, *e.g.*, Governments, academic and private research organisations. Where this system can be the only source of such information, or an important source, it would be a great service to other sectors to organise such collection of data. Some instances may be cited:

(*i*) Compilation of stock statements has been already recommended. If such compilation can be organised at the Reserve Bank of India level, in respect of trade particularly, and time series maintained for different States, the entire economy will have additional information which is lacking at present. The levels, the changes during various seasons and over years, would all be very useful for policy purposes. Since stock statements are in any case received in banks, it is only a question of organising, collecting and processing the data. One would have a series in terms of indices based on physical quantities. Similar series for manufacturers, etc., could be built up.

(*ii*) There are over 70,000 accounts relating to small scale industries and the number will increase in course of time. Even if some units have more than one account, the number of small scale units will be quite sizeable. Banks can, therefore, serve as the fountainhead of information on income and expenditure, value added, capital invested, sources and uses, etc., in respect of small scale industries. Properly analysed and adjusted for prices, value data can also give a good amount of information on growth rates. All this information in respect of small scale industries is lacking today, and particularly in respect of units not covered by the Factories Act. These structural and other data are badly needed for several useful purposes and banks should be in a position to canvass a simple, short schedule for the annual accounts and balance sheet data for their clients in this sector. The data could be centrally processed by the Reserve Bank of India.

(*iii*) The information needs for purposes of judging the impact of new schemes periodically can be met by calling special progress reports. The format of such reports and the periodicity thereof will depend upon the type of scheme and its importance. It should, however, be mentioned that the information content in the various returns specified for the purpose, should be restricted to the purpose for which it is called and once this scheme has been accepted and has settled down, the return should be discontinued.

Special Surveys

13.41 For the purposes of long term policy requirements of the various aspects of the monetary policy, such as bank credit, deposit mobilisation, saving habits, investment in non-corporate enterprise more particularly the small scale industries, needs of the economically backward areas and priority and neglected sectors, it seems desirable that large scale surveys are organised

from time to time to yield valid estimates of the quantities involved and changes occurring therein and to throw sufficient light on the patterns prevailing. Much of this type of work will have to be done through personal approach to households and establishments. It would appear necessary for a central institution like the Reserve Bank of India to have a Survey Organisation with competent field staff spread out all over the country. The Reserve Bank of India has been conducting Rural Debt and Investment Surveys every ten years; the survey presently being conducted is also extended to urban areas ; the Reserve Bank carries out some follow-up surveys on problem-oriented topics, mostly in rural areas. With the nationalisation of 14 banks and the shift in the emphasis on credit policy thereafter as regards extension of credit to priority and neglected sectors and in backward areas and the need for vigorous deposit mobilisation, the frequency, the tempo and the variety of surveys will have to be increased. For instance, more will need to be known about urban areas, priority sectors, backward regions, impact of branch expansions, etc. A Rural Survey Division in the Economic Department does undertake some surveys at present but in view of what is stated above, the Survey Organisation will have to be appropriately structured, and more statistical sampling expertise will be necessary. Since the field work, sample designing, proforma drafting, processing, etc., are all operations which need statistical or related expertise and training, it may be best if the surveys are carried out by the department specially equipped for the purpose. As regards planning and content of the aspects to be covered by a survey, there could be a Standing Committee of Direction vested with this function. This Committee should chart out a series of surveys which could be taken up one after another in a round so that each type of survey is repeated after every few years. Thus, for instance, surveys on rural debt and investment, urban incomes and savings, small scale industries, etc., could be taken up in rotation. Such an organisation will have the added advantage that the work-load can be developed in such a way that no large scale temporary or *ad hoc* expansions of staff, etc., become necessary as happens when a large survey of the type of All-India Rural Debt and Investment is taken up.

Environment

13.42 Branch expansion has to be viewed from two points :

(*i*) enlarging the area of operation, and

(*ii*) marketing strategies.

For this purpose, considerable amount of environmental data is needed and an information flow in this area is virtually non-existent in the banking system. The Lead Bank Scheme has enabled the banking system to acquire a certain amount of information on these aspects. But as pointed out in Chapter 5, the content and quality of the information are highly variable. Individual banks are scarcely equipped at present to handle such type of

work. Nor is it really necessary that they should do so. It would suffice, as mentioned earlier, if there were a common agency which did this work. The important point is that there is a standardised information pattern and a periodical updating of the information file on the various aspects so that the data could be used effectively.

Feed-Back

13.43 We have already stressed the need for prompt feed-back of the processed information to the banks and bank offices. This is of special importance in making the MIS work effectively and in eliminating duplications prevailing in the current information systems. The feed-back, however, has to be of different types at different levels. Information needed by a branch is different from that needed at district or regional level and this in turn is different from the information needed by the head office. The Reserve Bank of India and Government may need information with further aggregation. The idea essentially should be to supply such type of information as will enable a branch to measure its performance in absolute terms as well as relative to other branches in the area in which it operates. Similarly at the district level, a bank officer in charge of the offices of a particular bank should know how the branches in his charge compare with branches of all bank offices in the district, all branches of his bank operating in the region/State and all branches of all the banks of the region/State. A list of exceptional branches in his charge which are doing too badly or too well in any particular field should also be available to him. In addition, he should know the developing trends in different areas of operations. The system can be developed right up to the requirements of the Reserve Bank of India and the Government of India.

13.44 Two points, however, need to be noted. First, the system of feed-back contemplated cannot work unless it is based on prompt submission of accurately filled up returns by branches and banks and the data processing is computerised. For quickness, accuracy and cross-classificatory tabulations, etc., computerisation is most essential. For repetitive jobs, programmes being standard, processing costs whether in time or money are much less than for non-standard jobs. But even these machines will fail to secure a proper and useful feed-back system if basic data are not received from the branches and the banks in time and accurately filled up. The second point is that a common feed-back system should be based on a common set of tabulations. And, while there may be temptations to call for more information, the set of tabulations agreed upon should not be changed for some reasonable time. Any changes in the set should be made only after careful consideration of the various requirements that may have been intimated Also such changes should be made at specific points of time and not as and when felt necessary. Any extra information needed would depend on the availability of the necessary computer time and such extra information asked for by banks should

be charged at special rates since tabulations for these extra information will need special programming and computer time.

13.45 In what follows, a system of tabulations needed and to be made available through the proposed information system is considered.

(*i*) *Tabulations for the Reserve Bank of India and the Government of India*

13.46 All the tabulations needed by the Reserve Bank of India and the Government in respect of the banks and their offices and appearing in its annual publication 'Statistical Tables Relating to Banks in India', in the monthly Bulletin and Weekly Supplement can be made available from the proposed information system. With the proposed sample-census of deposits on the same lines as the census for advances, there will be an added advantage that the ownership of deposits classification and the classification of advances according to organisation, occupation, etc., will become comparable. It may then be possible to work out credit-deposit ratios for these different classes of accounts. For both deposits as well as advances, several new cross-classificatory tables at various geographical levels can also be made available for purposes of control or economic analysis. For instance, comparable tables for old and new branches could be made available as computer tabulations. It must be observed, however, that the present code lists for the UBB return will need some changes if the type of data that the Government of India has recently started publishing is to fit into this scheme of information system. The Government gives statistics of advances according to priority sector and purpose-wise cross-classifications. It is at present not possible to uniquely identify these priority sectors and purposes from the UBB code lists.

(*ii*) *Tabulations for Individual Banks*

13.47 All tabulations which are prepared for the banking system as such, should also be prepared in respect of each bank and made available to the respective banks, along with the share of the bank to the total worked out on the computer. Also, comparative figures for the same month/quarter last year and for the previous month/quarter should be available in the tabulations for comparative purposes. A system which signals large deviations (suitably defined) should also be introduced so that such deviations wherever necessary are brought to the notice of the authorities.

13.48 Banks' head offices would need copies of the tabulations which are supplied to its various regional offices, and perhaps also for each branch, or at least lists of branches with performance below standard and above standard with regard to different items (*e.g.*, deposit growth, advances to priority sectors, expenditure ratio, etc.) The statistical and other concerned divisions of each bank should also be in a position to locate exceptional situations for different items of control and for different branches and districts. At present, there is no uniformity of formation of regions by different banks

and hence tabulations for each of the banks in terms of its 'regions' is not possible. (This difficulty will, however, not arise after the adoption of the structure of banks recommended in Chapter 15). Until then, such tabulations for each bank can be considered on request at extra payment, but these can be supplied after the whole operation for the regular monthly/quarterly tabulations is completed.

(iii) Tabulations at the State and District Levels

13.49 At the State and district levels, the tabulations should give the aggregation of figures for branches operating in these areas. Such tabulations would, therefore, generally exclude tables relating to investments and those assets and liabilities which pertain to the working of the bank as a whole but not to bank offices. Tables such as earnings and expenditure, employment by categories of staff, etc., may, however, be relevant.

13.50 A second point in this regard is that for evaluation of performance, each bank will be interested in knowing its own position *vis-a-vis* the position for all banks operating in these areas, and at the next higher level of geographical area. Thus, at the district level tabulations, a bank should be supplied aggregations for : (*a*) all branches of the bank in the district, (*b*) all branches of all banks operating in the district, and (*c*) all branches of the same bank in the State. For the State level aggregation, each bank should be supplied tabulations for: (*a*) all branches of the bank in the State, (*b*) all branches of all banks operating in the State, and (*c*) all branches of the same bank in the country/zone.

13.51 The tabulations should relate to the various items worked out for branch level figures. These aggregates may be broken-up for similar type of banks (*e.g.*, deposit group), similar types of branches (*e.g.*, by age group), and for different population-groups. There should be a system of signalling out the districts or the States as the case may be for exceptional performance (both positive or negative) or highly variable performance. Also, comparative figures for the same month or quarter of the previous year and previous month or quarter should be made available in the tabulations.

13.52 Such tabulations would be of use only if there are sufficient number of branches functioning in the area (whether a district or a State). Not only processing costs may be unduly high otherwise, but the figures for different items may be so highly varying as to render comparative analysis fruitless. Hence such tabulations should not be prepared for a district, State, etc., unless the number of branches exceeds ten in that particular area.

(iv) Tabulations for Branches

13.53 Each branch would be interested in knowing its own position, the position of all branches in the district of the bank to which it belongs and

all branches of all the banks operating in the district. This should enable the branch manager to look quickly for developing trends, highly fluctuating situations, etc., and also carry out comparative analysis. Such aggregations should be made in terms of figures of: (*a*) levels, (*b*) relative position or percentage distribution of sub-items, (*c*) relative position compared to previous month, and same month/quarter last year, and (*d*) share of the branches in the district/State in the total.

13.54 It should be noted that such tables could be made more refined by agreeing to have them for the same age-year groups of bank offices or for 'new' and 'old' bank offices, these terms being suitably defined, and operating in the same 'population group'. Comparisons could also be made for some 'deposit group' banks and their offices. Also, similar tabulations can be turned out at regional levels for different banks where regions would mean aggregation of whole districts. As already observed, however, such regional tabulations can be taken up only after the standard set of tabulations are supplied to the banks.

Data Processing : Equipment and Organisation

13.55 It has already been emphasised that for the information system to work, prompt processing of data is of the essence. All the super-structure of feed-back and other tabulations will be of little use if these are delayed for want of quick processing. In view of this, it is inevitable that electronic data processing equipment be installed and an appropriate organisation set up to handle the mass of data likely to be received. This section deals with the two aspects of the equipment and organisation. It is understood that the NIBM Study Group on Information Systems has given considerable thought to this aspect and is in the process of making detailed recommendations in this regard. In view of this, we do not make any detailed recommendations but give some general indications on thel ines on which the data processing work may be organised. We suggest that the recommendations of the abovementioned Study Group when available be given most careful consideration.

13.56 For the information system recommended above, the data on advances and deposits, the data obtained through the cost survey and the data from other special surveys including large scale surveys of the type of All-India Rural Debt and Investment Survey, Industries Surveys, etc., will take up bulk of the processing time and it is primarily on the basis of these that the scale of equipment necessary has to be worked out. Having regard to this, it is understood that the NIBM Study Group has thought of recommending half a dozen or so regional processing centres with a number of punches and verifiers and some other supporting facilities of the unit record system, to cope with this huge volume of punching work. All these centres need not start functioning simultaneously ; in fact there may be some advantage to begin with centres in the larger cities.

13.57 The NIBM Study Group has considered the question whether such a system could be formed by each bank setting up its own computer system for operating the MIS or whether some other type of organisation would be preferable. It feels that adoption of the former course is likely to hinder rather than help the cause of the MIS. The operation of regional and central computer system will need some central authority in which each bank should have some stake. This means that such an organisation may take the form of a separate corporation or alternatively, such an organisation could be run by the central banking authority, *viz.*, the Reserve Bank of India, with the advice of a Committee of Direction on which there should be representatives of the various types of banks.

13.58 The Commission agrees with the idea of setting up at a very early date a Committee of Direction or a Steering Committee. This Committee can consider the feasibility of the various alternatives such as individual bank-owned computer systems, a separate corporation, or a Reserve Bank system.

General Observations

13.59 The various recommendations made in the foregoing paragraphs are designed to provide an integrated information system for banks which would not only serve the normal needs for policy formulation, operational efficiency and evaluation of performance at the different managerial levels in banks but also to provide essential information to the fiscal and monetary authorities, avoiding duplication of collection and collation of data, wherever possible. The processing and interpretation of the information on the lines suggested would involve use of statistical methods, processes and techniques. It is, therefore, essential that the employees of banks at various levels should be given the requisite training and that the economic and statistics departments in individual banks should be strengthened; the Commission's recommendations in this regard have been made in Chapters 11 and 14.

13.60 Some of the recommendations made in this chapter would involve: (*i*) changes in the systems and procedures followed by banks, *e.g.*, maintenance of ledgers for advances on the basis of the purpose of the advance instead of according to the nature of the account, (*ii*) organisation of surveys for obtaining estimates of unit costs and income and for various other purposes, and (*iii*) creation of a central computer system. These matters would require planning and organisation on an extensive scale. The Commission is aware that the full implementation of its recommendations would take quite some time but what is urgently necessary is that a beginning in this direction should be made.

Annexure 13.I

List of returns being submitted by Commercial Banks to the Reserve bank of India

Nature of Return	Form No.	Regulation or Act	Submitted by Branches or H.O.	Coverage
1	2	3	4	5
Weekly				
1. Scheduled Banks' Business in India	—	Section 42(2) of the Reserve Bank of India Act	H.O.	All scheduled banks
2. Weekly statement of positions	—	Section XXIX of the Exchange Control Manual	A.D. Branches	All authorised dealers
Trimonthly				
3. Return of transactions in Foreign Exchange by Authorised Dealers	R1 to R5	Section XXIX of the Exchange Control Manual	A.D. Branches	All authorised dealers
Monthly				
4. Limits and outstanding amounts of unsecured loans	IV	Section 20(2) of the Banking Regulation Act, 1949 and Rule 5	H.O.	All commercial banks
5. Demand and time liabilities and cash, gold and unencumbered approved securities of the bank	X	Section 24 of the Banking Regulation Act, 1949	H.O.	All commercial banks
6. Assets and liabilities of Banking Companies	XII	Sections 25 and 27 of the Banking Regulation Act, 1949	H.O.	All commercial banks
7. Cash reserves of non-scheduled banks	III	Section 18 (Rule 10A) of the Banking Regulation Act, 1949	H.O.	Non-scheduled banks
8. Assets and liabilities of foreign offices of banking companies incorporated in India	—	Section 27 of the Banking Regulation Act, 1949	H.O.	All commercial banks

ANNEXURE 13.I—(*Contd.*)

1	2	3	4	5
Monthly (*Contd.*)				
9. Advances to Agriculture	—	——	H.O.	All scheduled banks
10. Advances to Small Scale Industries	—	——	H.O.	All scheduled banks
11. Branches and sub-offices opened/closed by the State Bank of India	—	——	H.O.	State Bank of India
12. Branches and sub-offices opened/closed by the Subsidiaries of the State Bank of India	—	——	H.O.	Subsidiaries of the State Bank of India
13. Composite monthly return on Bank Advances (Uniform Balance Book)	—	——	Branches	All scheduled banks
14. Import letters of credit opened or bank guarantees issued.	—	Section XXIX of the Exchange Control Manual	A.D. Branches	All authorised dealers
15. Import letters of credit/bank guarantees outstanding	—	-do-	-do-	-do-
16. Export Guarantees	—	Section VIII of the Exchange Control Manual	-do-	-do-
17. Export letters of credit	—	Section XXIX of the Exchange Control Manual	-do-	-do-
18. Balance held in Accounts opened in terms of A.D. Circular No. 7 of 1971	—	—	A.D. Branches	All authorised dealers
19. Guarantees issued on behalf of non-residents	—	Section XXIX of the Exchange Control Manual	-do-	-do-
20. Foreign currencies held abroad and rupee balance held in bilateral account countries by authorised dealers	—	-do-	-do-	-do-

ANNEXURE 13.I—(*Contd.*)

1	2	3	4	5
Monthly (Contd.)				
21. Operations on non-resident accounts of foreign Governments	—	Section XXIX of the Exchange Control Manual	A. D. Branches	All authorised dealers
22. Credits to U.S. and Canadian dollar accounts	—	-do-	-do-	-do-
Quarterly				
23. Statement of offices	IX	Section 23 of the Banking Regulation Act, 1949	H.O.	All commercial banks
24. Credit information (party-wise)	—	Section 45C(1) of the Reserve Bank of India Act	H.O.	All scheduled banks
25. Survey of stocks of/and advances against foodgrains	8	—	Selected offices	Scheduled banks
26. Term loans exceeding Rs. 10 lakhs sanctioned to concerns in private sector	—	—	H.O.	All scheduled banks
27. Survey of deposits with scheduled commercial banks	Q1	—	Branches	All scheduled banks
28. Survey of unclassified receipts	—	—	A.D. Branches	All authorised dealers
29. Deferred credit arrangement for imports	—	—	-do-	-do-
30. Balances held by non-resident individuals and firms	—	Section XXIX of the Exchange Control Manual	-do-	-do-
31. Blocked accounts and securities	—	-do-	-do-	-do-
Half-Yearly				
32. Statements of shares and debentures underwritten	—	—	H.O.	All commercial banks

ANNEXURE 13.I—(*Contd.*)

1	2	3	4	5
Annual				
33. Statistical Tables relating to Banks in India	A1	—	H.O.	All commercial banks
34. Earnings and expenses of banks	A2	—	H.O.	All commercial banks
35. Special return on liabilities and assets (as on 31st March)	A3	—	H.O.	All commercial banks
36. Survey of ownership of deposits	A4	—	H.O.	All commercial banks
37. Survey of investments	A5	—	H.O.	All commercial banks
38. Survey of ownership of Central and State Government securities	—	—	H.O.	All commercial banks
39. Survey of Credits and Debits to Deposit Accounts	A9	—	Branches	All scheduled banks
40. Unclaimed deposits	XI	Section 26 of the Banking Regulation Act, 1949	H.O.	All commercial banks
41. List of shareholders of State Bank of India	—	Section I of the State Bank of India Act, 1955	H.O.	State Bank of India
42. Particulars in respect of branches opened by State Bank of India and its subsidiaries under their expansion programme	—	—	H.O.	State Bank of India and its subsidiaries

Note : This list is not exhaustive.

ANNEXURE 13.II

UNIFORM BALANCE BOOK (UBB)

Redesigned

I. Fixed Information to be Reported at the Time of Opening an Account

Bank : ——————————— Branch code: [ ] Page No :———

Branch : ———————————

Account No.	Credit limit (Rs. '000)	Organi-sation code	Occu-pation code	Purpose code	Security code	Rate of interest	Type of bill	Type of account code	Remarks

Redesigned

ANNEXURE 13.II—(*Contd.*)

UNIFORM BALANCE BOOK (UBB)

II. Monthly Balance as on——————————

Bank :—————————— Branch code : [ ]

Branch :—————————— Type of Account :——————

Page No.——————

Account No.	Amount outstanding as			Remarks
	Credit	Debit		
		Total	Of which against the pledge of receipt of official ware-houses	

ANNEXURE 13.III

Number of Branches Accounting for 80 per cent of Advances against Specified Commodities

Sr. No.	Commodity	Number
1.	Paddy and Rice	8
2.	Wheat	60
3.	Other Cereals and Pulses	158
4.	Cotton and Kapas	73
5.	Cotton Seeds	2
6.	Tea	13
7.	Sugar	72
8.	Vanaspati	14
9.	Groundnut Oil	32
10.	Cotton Textiles	99
11.	Jute Textiles	4
12.	Iron and Steel	194
	All Commodities	822

Note : 1. The statement is prepared after arranging the branches in descending order of advances against each commodity. For *all commodities* the branch-wise totals are considered.

2. The above statement is based on the Form 7 data for December 1970 reported by 9,701 branches.

CHAPTER 14

MANAGEMENT DEVELOPMENT IN BANKS

INTRODUCTORY

14.1 The total number of bank employees has increased threefold during the course of last 15 years and as at the end of June 1971 commercial banks in India were serving the community through a network of over 12,000 branches with the help of personnel exceeding two lakhs. Due to the increased emphasis on the developmental aspects, a host of diverse activities are now encompassed in the banking business. The degree of success in realisation of the objectives of banking depends, in a large measure, upon how well the banking organisation locates, develops and makes use of the talents of its people. Skilful management can make work assignments a more satisfying experience for every employee and, at the same time, tap his energy, knowledge and creativity to the full extent. An urgent need has, thus, arisen to give increased attention to management development in banks in order that the personnel in the banks are emotionally involved in and technically equipped for the work. As required by item (*v*) of the Commission's terms of reference, a brief review of the existing arrangements relating to recruitment, training and other relevant matters connected with manpower planning of bank personnel and recommendations for building up requisite professional cadre at all levels of management in commercial banks are set out in this chapter.

14.2 A study of this subject, which mainly encompasses manpower forecast, personnel inventory, recruitment, selection, training and performance appraisal, was conducted by M. N. Rudrabasavaraj of the Vaikunth Mehta National Institute of Co-operative Management, at the instance of the Commission, on the basis, *inter alia*, of the replies received to the questions relating to 'Personnel' in the questionnaire issued by it to commercial banks. The Commission also held discussions with the Director of the National Institute of Bank Management and the Principals of the Bankers Training College of the Reserve Bank of India and of the staff colleges of some of the commercial banks as also with certain other persons having expertise in management of human resources. The National Institute of Bank Management had organised in March 1970 a Workshop on 'Management Development for the Banking Industry' in which most of the bigger banks participated. As a follow-up measure, the Reserve Bank of India elicited information from banks

relating to their management development programmes. The information available from these various sources has been taken note of by the Commission while formulating its views.

14.3 The Commission's recommendations which follow are divided into six sections, *viz.*, (*i*) manpower forecast and personnel inventory, (*ii*) recruitment, (*iii*) employee appraisal and promotions, (*iv*) training, (*v*) worker participation and motivation, and (*vi*) organisation of management development departments in banks. The organisational structure, decentralisation and delegation of authority are also related to manpower planning as they form the environment in which the executives and officials get an opportunity to make use of their abilities. The Commission's recommendations on these aspects have been made in Chapter 11.

14.4 The recommendations made in this chapter can also be applied after suitable modifications to urban co-operative banks which conduct business akin to that of commercial banks. The Commission considers it necessary that facilities for training the employees of urban co-operative banks, rural banks, chitties, nidhis and other similar financial institutions should be provided by commercial banks in their training colleges and centres on a reasonable payment.

14.5 In the field of training co-operative bank personnel and research on problems relating to co-operation, the Vaikunth Mehta National Institute of Co-operative Management should play a role similar to that of the National Institute of Bank Management in relation to commercial banks. Co-operative banks at the apex and district level also conduct commercial banking business to some extent, mainly pertaining to deposits, remittances and bills. The Vaikunth Mehta National Institute should make use of the training methods and techniques developed by the National Institute of Bank Management, the Bankers Training College and similar other institutions while designing the training programmes for the staff of co-operative banks. The Commission has already recommended in Chapter 11 that the Reserve Bank of India should formulate a comprehensive scheme for on-the-job training of co-operative bank employees in commercial banks. While formulating such a scheme, it should be ensured that there is proper co-ordination between the theoretical and practical training.

I. Manpower Forecast and Personnel Inventory

14.6 The process of manpower planning comprises preparation of personnel inventories, forecasting manpower requirements and arriving at the net requirements for different categories of employees. It enables banks to identify in advance how much staff of what skill-mix will be needed, when and for what jobs and in which geographical locations. The personnel inventory provides data regarding the current manpower resources. It is a compilation of all job positions within the bank with the names of the present

incumbents and contains details, such as their age, academic qualifications, experience, special abilities, skills and potentialities. On the basis of the knowledge of all existing personnel regarding their performance in the present job, their potential for holding higher positions and the specific skills already acquired by them, a plan can be prepared to move suitable existing personnel from one job to another. The manpower forecast has necessarily to be done in the perspective of future business development (by estimating the growth due to expansion of existing activities and contemplated addition of new activities) as well as personnel policies and organisational structure intended during the plan period. The estimates of 'wastage' through retirement, resignation and death, and the number of promotions from one category of staff to another have also to be taken into account. The gap between the available staff and that required on the basis of forecast will indicate the quality and quantity of future requirements. This gap can be filled in by training and promoting people from within the organisation and by recruiting them from outside sources. The forecast thus serves as a guide for designing plans and policies in regard to recruitment, training and executive development.

14.7 The 'Working Group on Training Facilities for Senior and Middle Level Personnel for Commercial Banks' (Adarkar Committee) had estimated in early 1968 that there were about 20,000 officers in banks and the fresh annual intake would be about 2,000. According to a paper on 'Clerical Selection Strategy for the Banking Industry' prepared in 1970 in the National Institute of Bank Management, the clerical staff in banks is about 1,32,000 with fresh annual intake of about 15,000. A forecast of manpower requirements of different categories, *i.e.*, officers, clerks and subordinates, on annual basis for the next 15 years has been attempted by S. D. Varde of the National Institute of Bank Management in his paper on 'Long-Term Forecasts of Manpower Requirements of the Commercial Banking Industry in India'. According to this estimate, the total bank personnel was about 2,30,000 in 1970 which was estimated to increase to 3,38,000 by 1975, to 4,97,000 by 1980 and to 7,30,000 by 1985. The ratio of officers to clerical staff which was about 1 : 3.5 in 1970 is estimated to be 1 : 1.5 by 1985. The estimated expansion in bank personnel in the coming years and the expected increase in the ratio of officer staff to clerical staff (as the industry is becoming progressively officer oriented) emphasises the need for making similar forecasts by each bank on the basis of its own business plan. Barring a few exceptions, the Indian commercial banks have not devoted sufficient attention to this matter on a systematic basis. The Commission, therefore, recommends that banks should maintain proper inventories of their existing personnel on branch, regional and circle level, formulate business plans and, on that basis, make estimates of the requirements of personnel of different categories to serve as a guide for planning their recruitment and training programmes. More concrete plans on a short-term basis (say for one or two years) and broad estimates for longer periods should be made. The concrete plan will help in designing of recruitment, selection and training programmes for the next few

years while the long-term plan will help in visualising the position of the bank in regard to category-wise manpower requirements for the subsequent years. The plans should be reviewed at periodical intervals in the light of actual employment situation and business development.

II. Recruitment

Levels of Recruitment

14.8 To be effective, recruitment should attempt to attract appropriate talent in terms of skills and attitude. The search for suitable talent should not be restricted to the first point of entry in a bank (the clerical level), but should also be extended to attract sufficient number of persons who possess executive potential, *i.e.*, ambition and ability to develop into successful and responsible leaders. In any society, such people are comparatively few and sufficient inducement has to be offered to attract them. They have also to be deliberately trained and developed and the process of training has to start at a sufficiently early age when their minds are fresh and malleable. It is, therefore, necessary that besides the recruitment at the clerical level, there should also be recruitment from outside at junior officers' level. Further, with the functional enlargement of banking and the adoption of customer-oriented approach, the need for specialists in banks has increased considerably. Apart from the subordinate staff, the recruitment in banks should, therefore, be at three levels, *viz.*, clerical, junior officers and specialists.

Recruitment at Clerical Level

14.9 The recruitment policies followed by Indian banks in the past had hardly any scientific basis. In several cases, minimum qualifications were not insisted upon and even non-matriculates were recruited for clerical posts. There was no proper evaluation of capacity and aptitude and often relationship, caste, community and recommendations played a big part in selecting persons. The lack of proper training facilities further aggravated the situation and banks found themselves manned by a large body of employees who had very little interest in the type of work they were required to carry out and who had no identity with the goals and objectives of the institution.

14.10 There is still a wide variation in the practices followed by various banks in matters relating to minimum qualifications and selection process. Some of the banks have prescribed graduation as minimum qualification for recruitment of clerical staff, while certain others take even matriculates. Several banks allow weightage while testing the eligibility of the sons and daughters of their employees. In certain banks, the candidates are selected through examination and interview, while others screen them only through interview.

14.11 In view of the large expansion of the banking industry and the policy of internal promotions followed by banks, large numbers of clerks will

be promoted to higher positions in due course. According to the estimates made in the National Institute of Bank Management (on the assumption that 80 per cent of the vacancies at the officer level will be filled in by promoting clerks), every clerk recruited now will become an officer in 12 to 13 years. The clerks are thus potential officers. It is, therefore, necessary that for recruitment at clerical and cashier level (excluding typists, telephone operators and other technical personnel), an applicant should at least be a graduate and of an age not exceeding 24 years. It does not seem necessary to make any distinction between a cashier and a clerk in this regard as a cashier should not remain a cashier throughout his life ; with proper job rotation, he should be given an opportunity to rise to higher levels. Suitable relaxation in the minimum qualifications and the maximum age limit may, however, be allowed in respect of candidates belonging to scheduled castes and tribes ; but even in their case the standard should not be lowered below matriculation. Extraneous considerations such as sons of the soil, relations of existing employees, etc., should not be given any weight as they tend to fetter objective selection on the basis of merit. As, however, the banking industry is spreading to rural areas, persons having close acquaintance of rural conditions are likely to be useful. Moreover, those who are accustomed to living in rural atmosphere will not feel disgruntled when they are posted at rural branches. Selection tests should, therefore, be so devised that graduates with rural background are not barred from getting selected.

Selection Procedure—Written Tests

14.12 The crucial problems in recruitment relate to :

(*i*) attracting the most suitable talent into the industry, and

(*ii*) objective and rational selection procedure.

Selection procedure is a two way process. While the employer should have an opportunity for the selection of the best of the lot from amongst the applicants, the candidate should also know, with as much clarity as possible, the nature of the job, the service conditions and future prospects. The advertisements for recruitment should, therefore, not only indicate the minimum qualifications for the job but should also describe the range of duties, the service conditions and the future prospects. This is necessary to avoid selecting admirable candidates and then run the risk of their getting frustrated for lack of suitable opportunities to use their abilities. Among the dimensions that have been found useful for describing people are intelligence, specific aptitudes, patterns of interest, underlying motivations, attitudes, temperament and habits. It is fairly well accepted that intelligence and specific aptitudes are relatively stable throughout an individual's life ; that is, they cannot be greatly modified after childhood. The effective selection procedure, therefore, requires relatively accurate yardsticks to assess the level of each candidate as regards his intelligence and aptitude. It is necessary to identify

the job elements specific to the type of work and after analysing them to construct suitable tests for judging the candidate's ability.

14.13 Selection process should consist of written tests and interviews. Written tests are necessary as the standards of various universities in the country are not uniform and as aptitude tests have to be carried out. It is also essential that the selection process should be quick so that the time lag between the receipt of application and selection is restricted to a reasonable period of say three months.

14.14 The research work done in the National Institute of Bank Mangement[1] on the subject of clerical selection strategy indicates that the clerical work in a bank, on the basis of job element analysis, requires ability to compare names and numbers, to perform arithmetical computations like additions, subtractions, multiplications, etc., accurately and speedily and to comprehend circular letters written in simple English. Further, the ability to get on with people is very important in a bank as employees have to deal with customers, colleagues, subordinates and superiors. The clerical candidate is a potential officer and he should also have sufficient intelligence, power of comprehension, ability to discriminate between relevant and irrelevant material as also between a conclusion and an assumption. He should, in addition, have an adequate measure of common sense and ability to think and deduce logically.

14.15 The Task Force formed by the National Institute of Bank Management has selected certain tests which can be completed within two and a half to three hours and are claimed to be quick scoring and objective. They are not designed to ascertain any particular skill or knowledge but to find out the basic capacity of the candidates to learn and grow. The tests have further been made simple intentionally so as to ensure that people coming from rural areas or having limited knowledge of English do not score comparatively low marks. As regards the ability to get on with people, further work is proposed to be done in the Institute to devise a suitable test. The Institute has also started helping some of the banks in their clerical selection projects.

14.16 In the light of the experience gained and further research, a set of written tests should be formulated as standard examination procedure for clerical candidates aspiring for employment in banks. Tests should be devised not only to judge the candidate's ability to perform clerical duties but also to evaluate the potential to shoulder the responsibilities of an officer in due course. A carefully designed test of general knowledge covering a wide range of subjects including those relating to rural background should form

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[1] *Clerical Selection Strategy for the Banking Industry*, paper prepared in the National Institute of Bank Management, Bombay, 1970.

part of the test and sufficient option should be given to the candidates for answering questions of their choice, so as to eliminate bias against candidates coming from rural areas.

Selection Procedure—Interview

14.17 Interview should follow the written test and should be restricted to those candidates who have passed the selection test. Its purpose should mainly be to get supplementary information about the aptitude and temperament of the candidate and also about his appearance, deportment, ability to communicate, etc. Though personality and social qualities are important, the main criteria for judging a person should be his aptitude and the basic ability to perform the job satisfactorily. The interview is no doubt an essential part of the selection procedure, but it should be so devised as to ensure the maximum possible measure of objectivity. Undue weightage should not be given to the interview *vis-a-vis* the written tests and it should be considered as one of the subjects of examination having about 20 per cent of the aggregate marks. It should be obligatory for a candidate to obtain minimum pass marks for each test (including *viva voce*) to become eligible for selection. The ranking for placement in the waiting list should depend upon the aggregate marks obtained in written as well as oral examinations. It is important in this connection that the members of the Selection Boards should make themselves familiar with proper selection procedures.

Recruitment of Junior Officers

14.18 The need for and the rationale of recruiting outsiders at junior officers' level has been briefly dealt with in paragraph 14.8 above. The further question that requires consideration is the proportion of vacancies that should be filled by open selection and by internal promotions. There is a wide variation in the practices followed by commercial banks in this regard, the proportion ranging from nil : 100 to 50 : 50. While dealing with this question, it should be remembered that banks are being called upon to shoulder developmental responsibilities and an average bank official of today has to tackle successfully a much wider variety of problems than his counterpart of yesterday. With the continued development of the country's economy, the pace of growth of banking is not only likely to continue at the present rate for a long time to come but may also accelerate, giving rise to a large number of vacancies at the middle and top management levels. The responsibilities of bank officers have become onerous, their salaries are comparatively high and enough talent is available in the form of university graduates with brilliant record. In fact, to deny outstanding people an opportunity to join banks at a level which is attractive to them, would amount to a waste of good talent. At the same time, opportunities for competing for recruitment at officers' level should be kept open to the existing staff in order to avoid frustration and to give a chance to those who, though brilliant, had to join at clerical level due to adverse circumstances. Considering the present con-

ditions of the banking industry, the proportion for internal promotions and recruitment from open market should be two to one for the present, subject to review after a few years.

14.19 The minimum qualification for the junior officers' post should be graduation with high second division marks (over 55 per cent) and the maximum age limit should be 27 years. The recruitment should be open to graduates in any subject but preference should be given to those holding degrees in commerce, economics and business administration by allotting to them specified additional marks in the selection test. For the candidates who are already in the employment of banks, the age limit should be relaxed by three years. The candidates belonging to scheduled castes and scheduled tribes should also be allowed relaxation in the age limit by the same number of years.

14.20 The selection procedure for junior officers, as in the case of clerical staff, should consist of a written test and interview but accent should be on testing initiative and enterprise, general intelligence and logical thinking. As in the case of clerical staff, standard tests for selecting officer staff should be evolved in the light of experience gained and further research.

National Banking Service Commission

14.21 As the major portion of the banking industry is now in the public sector, there should be a common agency for recruitment of staff for these banks both at the clerical and junior officers' level. This agency could be named as the 'National Banking Service Commission'. To vest it with proper authority, it may have to be created statutorily. The provisions for its membership, functions, jurisdiction, etc., may be on the lines of those for the Union Public Service Commission. At least half the members of this Commission should have ten years' minimum experience of commercial or central banking. The members may serve on the Commission for a period of five years or till the completion of the age of 65, whichever is earlier. On retirement from the Commission, they should not be allowed to take reappointment in the Reserve Bank of India, or its associate institutions, *i.e.*, Industrial Development Bank of India, Deposit Insurance Corporation, Unit Trust of India, etc., or any of the commercial banks.

14.22 The National Banking Service Commission may conduct examinations at regional levels for clerical staff and an all-India competitive examination for junior officers' cadre. Waiting lists of selected candidates current for a specified period, say two years, may be prepared and allotment may be made to different banks according to their requirements. The allotment in the case of junior officers may be on all-India basis and that in the case of clerical staff on regional basis. Before the Commission can start functioning effectively, salaries and other emoluments of the staff of the National

Banks at various levels will have to be standardised, and this work should be taken up in right earnest by the Government of India. Expenses of the Commission should be shared by the National Banks.

14.23 It is also necessary for the co-operative banks to adopt a systematic recruitment policy in order to improve the quality of their staff. The Commission, therefore, feels that it would be highly desirable for them to avail of the services of the National Banking Service Commission by arriving at a mutual arrangement on agreed terms. If any commercial bank in the private sector also desires to make use of the services of the Commission, it should be able to do so on mutually agreed terms.

Recruitment of Specialists

14.24 The specialists, *e.g.*, economists, statisticians, legal experts, management experts, personnel officers and engineers (employed for upkeep of premises) may be recruited as and when required through the National Banking Service Commission, which may prescribe appropriate eligibility standards, procedures and tests for the purpose. To provide adequate career development opportunities to these categories of employees, there should be a common pool for each type of specialists for all the public sector banks and the incumbents may be transferable from one bank to another. Agricultural graduates and engineers (recruited for supervision of advances) and chartered accountants (employed for inspection of branches) have been intentionally excluded from the term 'specialists' used above, as they will be doing the regular banking operations work and not merely work of advisory or research type or that of looking after non-banking assets. These employees should, therefore, form a part of the general pool. A planned programme of job rotation and training should enable all employees in the general pool to fit in for any operational job when they come to the middle management level.

III. Employee Appraisal and Promotions

Employee Appraisal

14.25 For judging the ability of employees for promotion, banks should maintain proper service records and introduce scientific procedures for performance appraisal. Employee appraisal is a systematic evaluation of an individual with respect to his performance on the job and his potential for development. The appraisal should aim at measuring performance rather than personality, but such personal traits as co-operativeness, dependability, attitude, initiative and ability to get along with others have a bearing upon the employee's value to the organisation and should be evaluated. The appraisal should relate to various attributes such as job knowledge, efficiency, behaviour, power of expression, administrative ability, mental alertness, judgement and initiative. Potentiality of the employee to shoulder increased responsibilities should also be judged.

14.26 Several appraisal methods have been developed by management experts which relate to rating scales, employee comparison, check list, group appraisal, self appraisal, etc. The essence of a good appraisal system is that it should be objective and the bias of the appraiser or personal relationship should not be allowed to play any part. One way of doing so would be to provide that appraisal should be made independently by the immediate superior of the employee and by the officer next in rank above the superior and finalised by them by mutual consultation or with the help of a third official. It is also necessary to àcquaint the officers with the implications of the various terms used in the rating form as also with the pitfalls which are required to be avoided while appraising the staff working under them. The appraisal should not suffer from leniency or strictness of the rater, the tendency to allow one characteristic of the employee to affect overall assessment, the attitude of giving moderate reports on everybody in order to avoid saying 'very good' or 'very bad' about persons and the inclination to overrate them on the basis of sectional or group affinity. Standard forms and methods for evaluating job performance of various categories of bank employees should, therefore, be devised on the basis of research on the subject for use by banks.

14.27 The appraisal should bring out with as much clarity as possible the strengths and weaknesses of the employee. The good or bad points observed should be discussed with the employee in a post-appraisal interview in order to give him an opportunity for self development by overcoming the weaknesses and harnessing the strengths.

14.28 The appraisal reports together with job analysis (which determines the duties and responsibilities assigned to each job) should be used for proper placement of personnel in posts suited to their skills, interests and abilities. These reports constitute a major source for preparing personnel inventories which can be used for executive development.

14.29 The question of management succession has recently assumed greater importance in banks in view of a number of retirements at various levels and creation of new posts. It is, therefore, necessary for banks to formulate specific programmes for grooming suitable people to occupy executive posts. Career planning involves arranging the experience of officers in such a way that they acquire the knowledge and skills for future posts they might be called upon to hold, through planned job rotation and appropriate training. Maintenance of 'Management Chart' showing the names and other details such as age, experience, date of retirement, etc., of the present incumbents holding important positions and similar details relating to back-up candidates for these positions will be helpful in this regard. A specimen of the 'Management Chart' used in one of the foreign banks operating in India is given in Annexure 14.I.

Promotions to Junior Officer's Grade

14.30 All posts below the junior officer's level should be filled in by promotions on the basis of seniority-cum-merit as revealed by the appraisal reports without any written examination and/or interview. However, for filling in the posts of junior officers reserved for internal promotions, a qualifying examination should be conducted at various centres by the National Banking Service Commission for the National Banks. As stated earlier, the officers' posts in banks carry onerous responsibilities and the branch agent is the kingpin in the banking organisation. A screening to judge the abilities through objective written tests is, therefore, essential before promoting an employee to the junior officer's level. It would be highly desirable for the co-operative banks, for the reason indicated in paragraph 14.23, to arrive at an arrangement with the National Banking Service Commission for conducting a qualifying examination for their staff. As regards the banks in the private sector, they may either hold their own examinations or make an arrangement with the Commission in this regard.

14.31 The employees who have completed at least five years' service in the clerical cadre with satisfactory performance record, irrespective of their age, should be allowed to appear for the qualifying examination which should mainly be designed to judge their aptitude, supervisory skill and knowledge of procedures. Those who pass the examination should be ranked on the basis of seniority for the purpose of promotion. The maximum number of chances to be allowed to an employee to appear for these tests should be three.

Selection Grade

14.32 Once an employee has either been selected or promoted as a junior officer, he may be allowed to reach the middle management level, without further screening, on the basis of seniority-cum-ability. Every person, however, comes to a stage in his career when he has reached the top of his curve of usefulness as an executive and, therefore, there should be a selection grade for posts carrying senior executive repsonsibility. As there is no uniformity in the designations in different banks, it is necessary to define clearly the posts which should come within the purview of selection grade. Posts which involve control over branches in a region or taking policy decisions or which carry at the beginning of the scale total emoluments (including perquisites) of Rs. 2,000 and above, may be covered by the selection grade. The selection may be made for all such posts in the National Banks by the National Banking Service Commission after perusing the service records of the applicants and interviewing them. The candidates selected should be transferable from one National Bank to another.

IV. Training

14.33 The purpose of training is to fit an employee for adequate job performance and extending his intellectual range. Broadly speaking, the

aims of training are achievement of greater job effectiveness, improved inter-personal relationships in the organisation and better adjustment of an employee to his environment. Considering these objectives, the training, by necessity, must be oriented towards realisation of organisational goals. The various aspects of training are to transmit relevant information, develop appropriate attitudes, improve skills and to develop analytical abilities. Conduct of research on banking problems and provision of consultancy services are activities closely allied to training. As the crucial role of training in fulfilling the objectives of developmental banking was not adequately realised in the Indian banking sphere, there has been a backlog in the provision of training facilities. New dimensions added to the banking objectives recently have further accentuated the need for extending the scope and improving the quality of training and for formulation of integrated training programmes.

Review of Training Facilities

14.34 In the past, the Indian commercial banks did not have any elaborate training programmes and the employees were expected to learn and equip themselves by on-the-job training. The only exception was the encouragement given to them to pass Part I and Part II of the examinations conducted by the Indian Institute of Bankers and similar Institutes in England and Scotland. The effective beginning of formalised training in the country can be traced to the establishment of the Bankers Training College by the Reserve Bank of India in 1954, though, even before that, a few big commercial banks were imparting training to the members of their staff in their own procedures and practices mainly at the basic level. The scope and variety of training facilities were later extended by these banks and some other banks also opened training colleges.

14.35 After the adoption of the policy of social control over commercial banks by the Government of India, a need for development and co-ordination of training facilities was felt. Accordingly, the 'Working Group on Training Facilities for Senior and Middle Level Personnel of Commercial Banks' was constituted in December 1967 under the chairmanship of B. N. Adarkar, the then Deputy Governor of the Reserve Bank of India. It examined how far the existing training facilities were adequate to promote the social and economic objectives of banking and suggested the lines on which management orientation programmes could be organised as also measures for co-ordination of the activities of various training institutions. The Group concluded that most of the commercial banks did not have a systematic, constructive and integrated approach to develop their personnel with a view to building up their morale, increasing their productivity and ensuring executive succession. It stressed the need for evolving an integrated management development programme by each bank for introducing purposive recruitment policies, instituting sound personnel appraisal schemes, ensuring proper selection of candidates for training and their placement and advancement.

It also emphasized the need for creating an organisational climate in which officers at different levels could participate in the decision-making process and could equip themselves better for assuming higher responsibilities.

14.36 As the development programme so conceived would be effective only when supported by formal training and as the gap between the existing and desired facilities was very wide, the Working Group suggested that there should be a two-tier training structure for the staff of commercial banks to meet both the quality and size of the training efforts. It recommended that the first tier should consist of a central agency to initiate and co-ordinate measures for the development of the banking profession in the country at the highest level and the second tier comprising all the other training institutions which could provide training at junior officer and clerical level of commercial banks. Following the recommendations of the Working Group, the National Institute of Bank Management was set up as a central initiating and co-ordinating agency in June 1968.

14.37 A further examination of the training programmes of commercial banks was made by the Review Committee (appointed by the Academic Committee of the National Institute of Bank Management) in its report submitted in January 1970. The Review Committee, *inter alia*, recommended that for revitalising the training colleges of commercial banks persons of senior status should be appointed as principals who should be actively associated with the formulation of personnel development policies, that the infrastructure of training including teaching faculty and libraries should be strengthened and that the teaching methods should be modernised.

Present Set-up for Training Facilities

14.38 The present training structure for the banking industry in India consists of—

(*i*) the training colleges and centres of commercial banks,

(*ii*) the Bankers Training College of the Reserve Bank of India,

(*iii*) the National Institute of Bank Management, and

(*iv*) the Indian Institute of Bankers.

Training Colleges of Commercial Banks

14.39 There are 15 training colleges of commercial banks with a total capacity to handle about 700 trainees at a time and a few of the bigger commercial banks have also training centres or schools ; the staff colleges are primarily utilised for the junior officer level training programmes while the training centres or schools are primarily meant for the training of clerical

staff.[1] Two more colleges—one in the North and the other in the South—are being established to cater to the needs of some of the small banks in the respective areas.

14.40 The Review Committee, referred to earlier, has pointed out certain gaps in the training arrangements in the colleges of commercial banks. In most of the colleges, the size of the teaching faculty is relatively small which hampers development of training techniques and specialisation and expertise in various fields of banking operations. In several cases, the training faculty is selected on the basis of availability rather than on the basis of importance and priority given to training. Further, adequate incentives are not offered to the instructors to create sufficient interest and attract proper personnel. There is also lack of research activity in the colleges. In most cases, the accepted teaching methods consist of class-room lectures ; the effort is thus made to impart information through a one way process without ensuring adequate involvement of trainees and making enough use of methods such as syndicate or group discussions and simulation techniques. There is no effective relationship between the training organisation and managements of banks and though the infrastructure consisting of equipment, libraries, etc., is generally adequate for the present, it is not sufficient for essential further expansion.

Bankers Training College

14.41 The Bankers Training College was established by the Reserve Bank of India for improving the quality of the bank staff, particularly at the supervisory level. The college conducts two general courses in banking—Senior and Intermediate—for officers of the Reserve Bank and commercial banks, in addition to specialised courses in industrial finance, foreign exchange, credit appraisal, personnel and organisation, organisation and methods, etc. Besides, it caters to the special training needs of the Reserve Bank officers by conducting a course for training the faculty attached to the Reserve Bank training institutions, senior and advanced courses in central banking and those on other subjects of special interest to inspection and other staff of the Reserve Bank. The teaching staff of the college consists of officers drawn from various departments of the Reserve Bank of India on deputation for about three years. The college faculty is supplemented by guest lecturers. The college, besides the lectures by the faculty members and guest speakers, arranges question bees, group discussions, panel discussions, case studies, written practicals, lecturettes by trainees, impromptu interviews, educational visits and tours, film shows, etc.

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1 *Source :* Speech by S. Jagannathan (Governor, Reserve Bank of India) at the Annual General Body Meeting of the National Institute of Bank Management, held on May 3, 1971, in his capacity as Chairman of its Governing Board.

National Institute of Bank Management

14.42 The activities of the National Institute of Bank Management relate to :—

(*i*) Training,

(*ii*) Research, and

(*iii*) Consultancy.

It has been conducting three types of training programmes, *viz.*, (*i*) executive development programmes for Regional Managers and for Assistant General Managers/Deputy General Managers, (*ii*) functional courses relating to manpower development, branch management, etc., and (*iii*) sectoral courses for imparting training in financing of priority sectors, credit management, etc. It also conducts courses for training the trainers of other institutions. It has organised workshops on various subjects such as deposit mobilisation, customer service, financing of agriculture, small scale industry and exports, and management development. Some of the courses were conducted in collaboration with other specialised institutions, *e.g.*, Indian Institute of Management, Ahmedabad, Agricultural Finance Corporation, and Small Industry Extension Training Institute. The National Institute of Bank Management is also preparing teaching material for the use of the staff colleges and training centres of commercial banks, and audio-visual material as an aid in training programmes. In the field of research, the Institute has undertaken several projects on subjects relating to environment and management of banking and its different aspects such as credit and finance, manpower forecasting, industrial relations, communications and recruitment. The Institute has also commenced providing consultancy help to certain banks in recruitment, business development and management development.

Indian Institute of Bankers

14.43 The Indian Institute of Bankers, besides conducting CAIIB Examinations for bank employees, publishes a quarterly journal containing notes, articles and legal decisions of interest to bankers. It also annually conducts an essay competition on subjects related to banking. At a few centres, it maintains libraries and arranges for lectures for the benefit of bank employees intending to appear for its examinations. It has recognised certain institutions for conducting correspondence courses for the benefit of those appearing for its examinations. It is also arranging for compilation and publication of text books on various banking subjects.

Intensive Short-Duration Training Programme

14.44 The total number of bank employees at the end of 1969 was 2,20,000 according to the figures published by the Reserve Bank of India in

the Statistical Tables Relating to Banks in India. According to the estimates made by Varde (referred to in paragraph 14.7), the officer staff and clerical staff at the end of 1971 would be about 40,000 and 1,40,000 respectively, while the average annual increase for the next few years has been estimated at about 4,000 for officers and 10,000 for clerks. The existing training facilities in the 15 training colleges of the commercial banks with a capacity to handle about 700 trainees at a time and in about 70 training centres (which take batches of only about 25 persons for about 2 to 3 months at a time) are grossly inadequate. With the existing facilities, it is difficult to fulfil the objectives of training of such a large number of personnel. To tackle this problem, an intensive short-duration programme, devised to give training to the entire clerical and officer staff of commercial banks, with only a marginal addition to the physical facilities and cost, has been prepared by the National Institute of Bank Management. The programme relies on short-duration intensive courses specifically geared to the tasks expected of the clerks and officers at different levels. The success of this programme essentially depends upon the whole hearted co-operation of various banks in adopting it and providing the faculty as well as the necessary infrastructure in the form of buildings, libraries and teaching materials as also extending the existing training facilities to the desired level. The Commission generally agrees with the approach of the Institute to the problem of training bank personnel. Its recommendations on the various aspects of training are made in the following paragraphs.

Recommendations Relating to Training

14.45 A clerical employee after recruitment should be given induction training for a short period in order to acquaint him with the history of the bank, its goals and objectives, organisational set-up, the nature of the work done in various departments, etc. He should then receive a week's training in a particular banking service (for example, remittances) on the basis of programmed learning material such as that prepared by the National Institute of Bank Management. The employee should, thereafter, work in a branch on that particular desk for six months. This process will be repeated in regard to other banking services and in about 4 to 5 years, the employee would have worked on all the different types of desks in a branch.

14.46 The direct recruits to the junior officers' cadre should also be given induction training and on-the-job training with the help of programmed learning material, but the duration of their training period should be about one year. The junior officers promoted from within the bank will not require either induction training or on-the-job training as they would have already worked as clerks for a minimum period of five years. All junior officers (internal promotees as well as direct recruits) after about three years' working in that capacity should be given training in a general banking course designed to equip them to discharge the duties of Accountant/Branch Manager. The accent in this course should be on developing their supervisory skills and on

public relations. They should also be trained in short-duration specialised courses, *e.g.*, finance to priority sectors, organisation and methods, management of human resources, etc. Their entire training on the above lines should be completed within 5 years from the date of their becoming junior officers.

14.47 As the question of training cannot be considered in isolation and as it should be an integral part of the general organisational process, there should be a proper link between training and overall personnel policies. It is essential that selection of employees for training should be made not on the basis of immediate availability of persons but on the basis of well-planned policies of career development and executive succession. The placement of persons after training is also important. A person trained in a specialised aspect of banking should be given an opportunity to make use of the knowledge and skill gained by posting him in an appropriate position.

14.48 The banks which do not have adequate facilities for training their officers and other staff should make the necessary arrangements by extending the scope of the existing training centres and colleges and/or by opening new colleges and centres. They should also make sufficient arrangements for infrastructure. For proper co-ordination of the training programme, training centres should work as wings of the training colleges of the respective banks. Small banks may not, however, be in a position to afford their own training colleges or centres. Such banks in contiguous areas should, therefore, join together and establish joint colleges. Where, however, a small bank still has a difficulty in imparting training to its staff, larger banks should afford the necessary facility in their staff training colleges and centres. The officers of small banks should also participate in courses conducted by the National Institute of Bank Management and the Bankers Training College. At a later stage, when the banks adopt uniform procedures and methods, it may be desirable to organise training colleges and centres on a regional basis with collaboration of the concerned banks rather than each bank having its own college.

14.49 There is also a need for strengthening the faculty of the training colleges and centres of commercial banks. The selection of persons to work as principals of colleges in the past was in some cases done not on the basis of their initiative and aptitude but on the basis of their service in the bank. This practice requires to be changed in favour of choosing experienced but dynamic senior executives with a *penchant* for developmental work. At present, bank officers are deputed to training colleges as instructors on three to five years' deputation basis. While this has the benefit of trainers remaining in touch with the current banking practices, the continuity in the colleges is disturbed. It would be a good idea if some of the tutors, say about 50 per cent of the total strength, remain in the colleges on a permanent basis and the others come on a deputation basis. The salary scales and promotion potentialities in the colleges will have to be suitably revised to make this suggestion workable.

Every endeavour will, however, have to be made to ensure that the tutors keep themselves in touch with current banking problems and developments. Care should also be taken to see that those who go back to the operational work in the bank are not affected adversely in their prospects for promotion, merely because of their deputation to the colleges. On the other hand, the experience in the college should be considered as a point in favour of the concerned employee.

14.50 Considering the magnitude of the problem of training bank staff, it is necessary to devise a planned programme and to provide a central directing agency with adequate authority to implement it. The National Institute of Bank Management should undertake the task of planning, co-ordinating and directing the training programme. It should work on the lines of a University and the colleges of all commercial banks as well as the Bankers Training College should be its constituent units. To ensure proper co-ordination and synthesis of various views on matters pertaining to the planning and execution of training, a body on the lines of Academic Council of a University comprising the representatives of the Reserve Bank of India, National Institute of Bank Management, Bankers Training College, other constituent colleges and experts in various fields connected with training may be constituted by the National Institute of Bank Management. A representative of the Institute should also be on the Managing Committee of each constituent college. Once the above arrangements come into effect and the provision of necessary physical facilities is made by the banks, the training programme should be so planned and implemented that, within a period of three years or so, the entire backlog of training the bank staff is cleared and adequate arrangements are made to meet the current training needs.

14.51 Apart from planning, co-ordination and directing the training programme, the National Institute of Bank Management should design training courses and teaching material. Case studies based on actual operations and simulation techniques will help the trainees to acquire skill in problem solving. The training of senior officers should also be undertaken by the Institute. The emphasis in training of such personnel should be on managerial aspects rather than on banking techniques. Trainees should be given ample opportunities to widen their horizons and broaden their outlook. The stress should be on self-analysis and, for this purpose, syndicate and group discussions should be organised. Each trainee should be asked to consider how he measures up to the required standards of an efficient bank official as also to analyse his shortcomings and to decide what steps are needed for his own self development.

14.52 The National Institute of Bank Management should continue its research and consultancy work. In research the emphasis should be on problems of practical value to the banking industry. The Institute should also consider conducting, in due course, diploma, degree and post graduate courses in banking for the bank employees.

14.53 Considering the increased responsibilities which will devolve on the National Institute of Bank Management, its internal set-up requires to be strengthened. As was suggested by the Adarkar Committee, the Institute should have a good admixture of the academic personnel and bankers with experience in commercial and central banking. These bankers should be invited to serve on the faculty as full-time members for periods of three to five years, so that their experience is fully drawn on in the operation of the Institute's programme.

14.54 In addition to providing training facilities to the Reserve Bank officers, the functions of the Bankers Training College should continue to be to train bank officers in specialised courses, *e.g.*, agricultural finance, credit appraisal, finance to small scale industries, foreign exchange, etc. The running of these courses requires considerable expertise which the training colleges of individual commercial banks may find it difficult to provide. The Bankers Traning College should also carry on the work of designing new courses, including those relating to training of the officers and other employees dealing with statistical and legal matters in banks, that of revising existing courses and that of imparting training to trainers in collaboration with the National Institute of Bank Management. By virtue of its special position, the Bankers Training College should function as the most important constituent college of the National Institute of Bank Management.

14.55 The activities of the Indian Institute of Bankers are mainly restricted to conducting the C.A.I.I.B. examinations twice a year and publishing the Institute's journal. The number of persons appearing for the Institute's examinations has increased considerably during the recent years as banks offer incentives by way of honoraria or increments to those who succeed in the examinations. Banks are thus spending a sizeable amount and they should, therefore, get adequate return in the form of increase in the efficiency of the employees, in their day-to-day working, as a result of passing these examinations. The C.A.I.I.B. examinations should, therefore, be redesigned by changing the syllabus suitably so as to make it more practical. Banks should run evening or morning teaching programmes at their training colleges and centres and at some of their branches for preparing their employees for these examinations and, for this purpose, arrangements should be made for designing teaching courses and preparation of suitable teaching material. In these and other similar matters, there should be a close collaboration between the Indian Institute of Bankers and the National Institute of Bank Management.

V. Worker Participation and Motivation

14.56 For building up an efficient professional cadre in the banking industry, it is necessary to introduce a deliberate policy of worker participation. Participation is the term used to designate the process by which people

contribute ideas towards the solution of problems affecting the organisation and their job. Basically, it concerns the actions by which executives involve the staff working under them in the decision-making process. Besides enabling an executive to obtain the help of his subordinates in making of plans and decisions by tapping their knowledge and creativity, the process of participation satisfies the basic needs of employees for self-expression and accomplishment. It also helps in developing the managerial abilities of staff by increasing their sense of responsibility and morale, in identifying capable employees and in improving the quality of decisions. Further, it facilitates willing acceptance of new schemes and plans and reduces the resistance to change. The participation is most likely to succeed when the management believes in it, encourages it and practices it in its day-to-day relations with subordinate executives. To be effective, the participation should be genuine, that is, the seniormost participant should not act in an authoritarian manner, should not impose his own ideas on others and should be receptive to the views expressed by the subordinates. There may, however, be occasions where an executive must sell his decisions to his subordinates ; in other words, he is going to make the final decision, but wishes to obtain ideas of his men before doing so. In such instances, he must be honest and should clearly let his subordinates know of their exact role.

14.57 The Commission recommends that at different levels of the organisation (i.e., head office, circle office, regional office and a large branch) and for important segments of activities, committees should be constituted and the officials should be encouraged to participate. The committees will be particularly useful for dealing with matters relating to the developmental activities, performance targets and operating efficiency as in such cases, the quality of output is likely to improve by a synthesis of different views. The committees should work on an informal basis to ensure smooth functioning without getting encumbered with formalities. Yet another way for infusing participation is the suggestions scheme, the adoption of which has been recommended by us in Chapter 11.

14.58 Managerial decision-making is an essential quality for a bank executive and it requires to be developed. Decision-making is a complex matter involving a high degree of skill. The essential attributes which a bank executive should possess are flexibility to adjust to economic and social environment, receptivity to innovation, disposition to emphasize opportunities rather than problems of management situation, courage to take calculated business risks and awareness of obligations of banking towards economic development of the country. It should be the endeavour of senior executives to educate their subordinates in correct decision-making process during their deliberations in conferences and committees as also while handling day-to-day banking problems. The attitude of the top management in this regard is important because it is often faithfully repeated by other executives.

14.59 The essence of human relations policy is to cultivate and develop an environment where the employees as individuals and in groups would wish to contribute their best to the organisational growth. This environment is cultivated and developed where there is an awareness on the part of the management of the needs, aspirations and emotions of the employees. Apart from the physiological, safety and social needs, every human being has needs of self-esteem and self-fulfilment. To create a sense of belonging in the employees, an organisation has to motivate them by providing satisfaction of social and self-esteem needs besides giving them salary, allowances, bonus, other monetary incentives, proper physical working conditions and reasonable security of service. Various methods used for motivation are acquainting the employees with goals and objectives of the organisation through conferences, meetings and induction training ; encouraging their social activities by providing facilities for clubs, sports, cultural activities and annual gatherings ; and creating conditions conducive to job satisfaction by decentralising powers and introducing an element of responsibility in a larger number of jobs (*e.g.*, by authorising ledger-keepers to pass cheques for small amounts).

14.60 Commercial banks in India have already introduced staff welfare schemes in some form or other. Some of the banks have also initiated group incentive schemes by making increased contributions to Staff Welfare Fund, etc., at branches which show outstanding progress. The Commission recommends that banks should offer incentives in the form of grant of honoraria, to employees who acquire knowledge of languages other than their mother tongue. There is also a need for increasing the element of responsibility in a larger number of jobs and the National Institute of Bank Management should conduct research in this subject for issuing suitable guidelines to banks. It is also necessary for bank managements to eliminate, as far as possible, the irritants arising from status consciousness as they act as impediments in proper co-operation and understanding.

VI. Organisation of Management Development Departments in Banks

14.61 Manpower planning on an organised basis has so far been attempted by only a few banks in India. For proper formulation of management development programme and its effective implementation, it is necessary for banks to organise a separate department which should not be required to deal with matters such as industrial relations, operational work relating to staff, *i.e.*, postings, transfers, leave, etc., and should be under a senior executive qualified to handle personnel matters. Banks should also form committees at top management level to direct the programmes of management development. The department should attend to manpower forecast, job analysis, personnel inventories, formulation of programmes for recruitment and training and for introducing schemes for motivation and worker

participation. As already suggested, the necessary guidance in these matters should be available from institutions such as the National Institute of Bank Management.

14.62 The Management Development Department should continuously review the implementation of the programme in order to make such adjustments and changes as may be necessary from time to time. It will be useful to prepare a check list as an aid for making the review which should, *inter alia*, be designed to ascertain the position regarding clear identification of various job levels and job contents, availability of enough promotable manpower at each level to fill in managerial openings promptly with well qualified and seasoned men, gearing of recruitment programmes to meet instant and long-term needs, updating of personnel inventory, adequacy of training facilities, and implementation of job-rotation schedule and executive development programme. The department should also issue carefully prepared guidelines to the concerned executives relating to techniques and procedures on matters such as maintenance of personnel inventory, estimating personnel requirements, selection of trainees, placement of staff, job-rotation and performance appraisal.

General Observations

14.63 The development and transformation which has taken place in the economy of the country during the past two decades has resulted in a very rapid growth of the banking industry both in terms of geographical expansion and volume of business. Further, the adoption of the policy of social control over commercial banks and subsequent nationalisation of the major banks has increased the responsibilities of banks in the country's developmental efforts. Apart from orientation in policies to suit the changed circumstances, adoption of modern management tools for increasing efficiency and rationalisation of methods and procedures to improve customer service, it is also necessary for the banking industry to improve the productivity of staff in order to efficiently discharge these responsibilities. The Commission is aware of the complexity and dimension of this problem and also of the fact that it would require some time for banks to achieve the desired results, particularly in view of the pace at which the banking industry is required to expand. Considering, however, the urgent need to tackle this crucial problem, it is necessary that expeditious steps are taken by the concerned authorities to implement the various recommendations made by the Commission in the foregoing paragraphs.

ANNEXURE 14.I

Specimen of Management Chart

MANAGEMENT CHART

DIVISION/STAFF OFFICE : ....

OFFICE/LOCATION : ....

PREPARED BY : .... DATE : ....

REVIEWED BY : .... DATE : ....

MANAGEMENT CHART

Instructions for Completion

Column

(1)—(2) — List your position title and name and the position title and incumbent's name for each management (supervisory and staff) position in your activity.

(3) — For overseas positions *only*, indicate whether current incumbent is assigned or indigenous staff.

(4)—(7) — List, for yourself and each incumbent — age, years of service with the Company and in present position, the year of retirement *only* for personnel scheduled to retire within the next 3 years.

(8) — Indicate your rating of each incumbent's potential for advancement according to the following codes :

CODE

A — Outstanding : has long term potential to advance at least two higher levels and probably beyond.

B — Considerable : has potential to advance at least one higher level and perhaps beyond.

C — Some : has potential to accept expanded responsibilities in present position, but advancement to the next higher level is unlikely.

D — Limited : Is at or near capacity in present position ; or advancement is limited because of personal factors.

E — Beyond capacity : Unable to cope with current responsibilities.

N — Too new to rate (Less than 3 months in present position).

(9) — Indicate your rating of each incumbent's readiness for promotion to the next higher level position according to the following codes :

CODE

1 — Ready now.

2 — Ready within 1-3 years after some further experience, development, or training.

3 — Not promotable.

N — Too new to rate (less than 3 months in present position).

(10) — Indicate, *for each incumbent other than yourself*, the position title of the position that each present incumbent is qualified to back-up.

(11) — Indicate, for yourself and each management position listed, the availability of back-up for current positions including the name and current position title of the back-up candidate and his promotability ratings if known. If the back-up candidate is currently in a non-management position, indicate 'non-mgt.' next to the name of the candidate.

(12) — If back-up is currently not available, check (√) the appropriate column, leaving column (11) blank.

Comments you may wish to make concerning any individual or position may be made at the bottom of the form.

Position	Present incumbent	ASGD.* or indig. staff	Age	Yrs. with Co.	Yrs. pres. pos.	Yr.† Sched. to retire	Promotability: Potential	Promotability: Readiness	Back-up candidate for (Position)	Position Back-up by: (Names and current position)	Position Back-up by: Promotability	Back-up not Available
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		(12)
‡ Manager — Branch	£	A	51	18	5	—	—	—	....	£ Assistant Manager—Operations	B-2	
‡ Assistant Manager—Operations	£	I	40	10	2	—	B	2	Manager — Branch	£ Department Head — Loans	A-1	
‡ Dept. Head — Commercial Books	£	I	63	25	8	1972	C	3	....	....	....	X
‡ Dept. Head — Loans	£	I	31	6	1	—	A	1	Assistant Manager—Operations	£ Dept. Head — Letters of Credit	B-2	
‡ Dept. Head — Letters of Credit	£	I	28	3	2	—	B	2	Dept. Head — Loans	....	....	X
‡ Dept. Head — Cash	£	I	26	1	1	—	E	3	....	....	....	X

COMMENTS :

‡ *Note* : Titles used conform to planned country/Branch title convention.

* Overseas staff only.

† If within next 3 years.

£ Names of the concerned officers.

CHAPTER 15

RESTRUCTURING OF THE BANKING SYSTEM

INTRODUCTORY

15.1 In the previous chapters we have examined a number of aspects of the working of commercial and co-operative banks in the country and have made recommendations designed to improve their operational efficiency. In Chapter 8, dealing with the problems of co-ordination between commercial and co-operative banks, we have recommended one type of structural reform, namely, the establishment of rural banks in certain areas. But, by and large, the recommendations have been made without taking into account the possibility of a structural reorganisation of the banking system or indeed of the need for doing so. This has been done because whatever the structure of the banking industry, it needs to improve its operational efficiency by adopting the recommendations made in the foregoing chapters. At the same time, it is obvious that their usefulness would be enhanced if the structure is strengthened.

15.2 In Chapter 3, dealing with the present structure of the banking system, a detailed comparison has been given of the two major components of the banking system in India, *viz.*, the commercial banks and the co-operative banks, from a number of points of view. The co-operative banks which form the weaker of the two components have been discussed in detail in Chapters 8 to 10 where a number of recommendations have been made to enable these banks to gain strength and vitality so that they can discharge their responsibilities in an efficient manner. In this chapter, we shall discuss the question of the need for structural reform of the commercial banking sector and the lines along which such reform should take place.

MAIN FEATURES OF THE WORKING OF COMMERCIAL BANKS

15.3 Taking a bird's eye view of the working of commercial banks in the country during the post-war years, the following features stand out in a prominent manner.

15.4 In the first place, the commercial banking system continues to be a highly urban-oriented system. Its policy-making organs are also concentrated in centres of this type. From the point of view of geographical coverage, the development of branches of the major commercial banks has

generally been from larger centres to smaller centres. From the point of view of functional coverage, deposit mobilisation is more evenly spread than bank credit. This has given rise to the feeling that the commercial banks have been mobilising savings in the less developed areas and making them available to the more developed areas. Secondly, the rate of growth of the business handled by the commercial banks has been quite high even allowing for the fact that the usual measures of output of the banking system such as total deposits or total advances being in terms of current monetary units are uncorrected for price changes and therefore include the effect of inflation in the economy. Thirdly, along with the growth in the volume of business there has been a diversification of the portfolios both in respect of deposits and in respect of advances. Banks now offer more types of deposits and finance more sectors of the economy than before. However, it is only in recent years and mainly as a result of the guidance from the authorities that the banks have begun to give increasing attention to the requirements of the sectors of small industry and small borrowers including those in agriculture. Fourthly, apart from deposits and advances the banks have been widening the range of other services and in this respect they compare, as has been seen in Chapter 4, quite favourably with banks in the more developed countries. At the same time, as the survey conducted by the National Council of Applied Economic Research for the Commission as well as the Report of the Study Group on Banking Costs show, little use is being made of these services by the general public. Fifthly, the record of working of commercial banks has been free from any major banking crisis. Such failures as have occurred have been on the part of the smaller units in the banking system and their adverse impact has been confined to small areas. Sixthly, the number of commercial banks has consistently declined as a result of amalgamation or liquidation of the smaller, weaker units. It is also important to note that there have been no new entrants in the banking industry for quite a long time except in the sector of urban co-operative banks. This has meant that the responsibility of providing banking facilities has devolved on the existing banks on an increasing scale. A number of them have become large organisations with hundreds of branches spread throughout the country. The pace of growth has increased rapidly after the nationalisation of the 14 banks in July 1969 and the concentration of effort of the banking authorities and commercial banks on improving the geographical coverage of the system.

Measures taken by the Authorities

15.5 A great deal of the credit for these developments goes to the banking authorities. The various measures taken under the Banking Regulation Act to supervise the functions of the banking system from the point of view of the safety of depositors' money, the policy of salvaging as far as possible units in a poor condition, the establishment of institutions like the Deposit Insurance Corporation, Credit Guarantee Corporation, or the Export Credit & Guarantee Corporation, to offer protection to depositors and to the banks or

to fulfil a complementary role by taking care of credit gaps of particular types, all these have contributed to bringing about a healthy development of the commercial banks in the country. It is thus the joint efforts of the commercial banks themselves and the authorities which have made the Indian commercial banking system a powerful instrument for implementing the economic policies of the country.

Shortcomings of the Commercial Banks

15.6 Over the years, however, a number of soft spots have developed in this industry mainly because of certain organisational defects in commercial banks in the private sector. These are excessive centralisation of authority, lack of effective communication between those responsible for policy making and those responsible for implementation at the field level, inadequate planning, inadequate attention to improvement of methods and procedures and haphazard systems of recruitment, training and promotion of staff. As a result, though these banks can handle traditional forms of business,their ability to handle the new challenges of the economic transformation going on in the country has often proved to be limited, and even as regards the traditional forms of business, complaints about the quality of services rendered by banks indicate considerable scope for improvement.

15.7 It was the growing dissatisfaction with the functioning of the commercial banking system and in particular the neglect by several major banks in the private sector of the smaller entrepreneurs who could not satisfy the traditional tests of creditworthiness employed by these banks which led first to measures of social control and then to nationalisation of the 14 larger units in this sector. With these 14 banks and the State Bank of India and its subsidiaries, the national sector of banking is in a position to control practically the whole field of banking activities in the economy. There is, however, the important point that the degree of success with which it will be able to contribute to the country's economic development will depend firstly on the speed with which the individual banks in the sector improve their operational efficiency through the various measures already recommended in this Report and secondly on a structural reform of the sector itself. As will be seen later, the two are not independent ; without a structural reform it is unlikely that the national sector will be able to achieve a high degree of success in implementing Government's policies.

Case for Structural Reform : Objectives of Reform

15.8 We may now examine the case for a structural reform. To begin with, it will be noted that the present structure of the national banking sector, being a result of several decisions taken over a period of time and in the light of the then prevailing circumstances, is somewhat heterogeneous. It consists of banks of various sizes, a few operating on an all-India scale while

the major part of the operations of the rest is confined to particular regions of the country. They exhibit different degrees of decentralisation, work with different degrees of efficiency and being owned by the Government by three different methods. The criteria on the basis of which the different units were brought into the sector were quite different. The State Bank was constituted with the objective of "extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for divers other public purposes."[1] The objective at that time was to create a very wide network of branches with the specific task of converting a large number of non-banking treasuries into banking treasuries, so that the remittance facilities throughout the country could be substantially enhanced, thereby facilitating monetary transactions in rural areas and flow of credit particularly in the co-operative sector. There was also a strong view that the time had come when the whole of the Agricultural Credit Department of the Reserve Bank of India should be transferred to the State Bank of India, divesting, in the process, the central banking authority of this burden, and that the agricultural operations for the entire country should be managed through the State Bank of India. After a careful examination, however, this idea was given up. The subsidiaries of the State Bank consists of the banks which were in the erstwhile princely States and the area of operations of which was mostly rather small. Their standards of working differed from those applicable to commercial banks in the rest of the country. When the princely States disappeared, the future of these banks was in doubt. Rather than let them face the competition with other banks, it was considered that a more useful course would be to make them subsidiaries of the State Bank of India and thus through them further the objectives of the State Bank of India. In nationalising the 14 major banks, the objective was to control the heights of the economy, and meet progressively, and serve better, the needs of development of the economy in conformity with national policy and objectives. The criterion used in selecting these banks was the simple one of the size of deposits at the time of nationalisation. Yet, those foreign banks which satisfied the criterion were left out. Nor has there been any suggestion so far that any of the remaining Indian banks in the private sector will be nationalised on the basis of this criterion. While the size of deposits as a criterion for nationalisation has the merit of simplicity, unless applied in a consistent manner it is likely to be regarded as a somewhat arbitrary one. If the basic principle is that a bank which has a sizeable amount of business and therefore is able to influence the pattern of allocation of the savings of the community needs to be made to work in a manner closely conforming to the objectives of national policy, then logically it should be brought in the national sector. It also follows that the objectives of all the banks in the national sector should be identical. Any feeling that there are differences in these objectives should not be allowed to persist.

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1 **Preamble to the State Bank of India Act, 1955 (Act No. 23 of 1955).**

15.9 It is of course not strictly necessary that such agreement on objectives be formalised. What is more important is that all the units in the national sector recognise the unity and work accordingly. All the same, a formalisation by means of appropriate amendments to the relevant statutes would be helpful in as much as it would bring the importance of unity of objectives home to all those who are concerned with the efficient working of the national sector of banking.

15.10 Once the unity of objectives is recognised it follows that the different units in the national sector have to be so organised that they are able to reach the objectives in an efficient manner. Any handicaps which exist in the present organisational set up and which prevent them from doing so should be removed as quickly as possible. This requires first, identification of the obstacles and second, a plan for their removal.

Need for a Long-Term Perspective

15.11 It would be true to say that to a very large extent the problems currently faced by the 14 nationalised banks have had their origin in the failure of the managements to appreciate fully the implications of the rapid rate at which the banking industry was growing and in particular the rate at which their own banks grew. Procedures and systems whether in the area of customer service or in that of internal operations remained by and large at the levels which were adequate only so long as the bank remained a fairly small unit and did not have a far flung net-work of branches and business of increasing degrees of complexity. The State Bank system does not experience them to the same degree because in the first place it has always been working on a country-wide scale as a bank *primus inter pares* and in the second because having been in the national sector for a decade and a half it has evolved a more systematic approach to such problems than the others. However, both the groups of banks need to adjust their sights to a longer term perspective. For, as the system expands, all the units in it experience these problems; their present differences in size only mean that there is some difference in the degree of their difficulties but not in the nature of difficulties. The strategy to solve them, therefore, has to be a common one based on the principle of optimum use of resources of the system as a whole. This does not mean only credit planning or achievement of deposit mobilisation targets but it means in addition that the banking system achieves these objectives in the various fields at the lowest possible level of costs.

Aspects of Cost Control from the Point of View of the System

15.12 There are two major components of costs : the price the banks have to pay for their funds and the price they have to pay for the employment of human labour. In both cases the banks have to work under some limitations. Interest rates are subject to control by the monetary authority through its operations in the money market and through its fiat. Salary

scales and work content are subject to collective bargaining with labour. The existence of these limitations emphasises the necessity of (*a*) the exercise of cost control by banks to the maximum extent in the area still amenable to such control and (*b*) the adoption of a suitable pricing policy by them in the area where they still have the freedom to do so. The manner in which individual banks can handle (*a*) and (*b*) has already been discussed in the foregoing chapters. We may now consider what the system as a whole can do about them. In particular, we shall consider whether integration of the 22 banks into a small number is or is not necessary from the point of view of improving its efficiency. If the balance of the argument is that integration is not necessary, then the question to examine would be whether the breaking up of some of the larger units into a number of smaller ones will be an improvement over the existing system or not. The various arguments relevant to such an examination may be grouped under the following headings: (*i*) economies of scale in banking, (*ii*) problems of management control and communications, (*iii*) the use of competition amongst banks as an instrument for improving their operational efficiency, and (*iv*) monetary and credit policy considerations.

(*i*) *Economies of Scale in Banking*

15.13 As has been mentioned in Chapter 12, the question of economies of scale in banking, that is, the nature of the relationship between size and total operating costs has been studied at two different levels: (*a*) the relationship between total costs and the size of the composite output of a branch of a bank, and (*b*) the relationship between total costs and the size of a bank in terms of the total amount of deposits of a bank.

15.14 The study of the relationship at the branch level suggests that economies of scale operate over a very large range of size of the composite output at the branch level. When the level of output of a branch is low, the average cost per unit of output is generally higher in the smaller population centres than in the larger ones. However, the average costs per unit of output fall off more rapidly with increases in output in the smaller centres than in the larger ones. The Study Group on Banking Costs has concluded that in the smaller centres it appears more profitable to encourage existing branches to increase their business rather than ask other banks to open branches there. On further consideration it would appear that such a conclusion has wider applicability. For, in the first place, over the whole range of the 830 branches from which data were obtained by the Study Group the marginal costs per unit of output were lower than the average costs per unit of output. This suggests that there is room for further economies with expansion of the output of branches over a very wide range of sizes. It is true that the difference between marginal costs and average costs per unit of output narrows down with increase in branch size but the size beyond which marginal costs are greater than average costs per unit of output is quite some distance from the sizes included in the sample.

15.15 From this angle it would be a good policy to effect a certain amount of rationalisation of the distribution of branches. The policy should be such that the business potential of a placc is shared amongst as few branches as possible ; in particular, it would be useful to consider reducing the number of branches through a process of rationalisation in crowded business localities.

15.16 The second type of relationship is that between total costs and the size of a bank in terms of the total amount of deposits of a bank. The study by C. Rangarajan and Paul Mampilly, for the years 1967, 1968 and 1969 suggests that under the then existing technology used in bank operations, the administrative structure and the level of efficiency, the marginal costs began to rise after a level of deposits of around Rs. 300 crores. In other words, the study suggests that from the cost angle it is better to let the banks with a smaller level of deposits to expand than the banks with a higher level of deposists. Although from the standpoint of economies of scale the size upto which the banks should expand is that given by thc minimum point on the long run average cost curve, the authors have suggested that from the policy angle it is better to take the range ovcr which the average cost is increasing slowly rather than the single minimum point on the curvc. The point upto which the average cost rises slowly is fairly high around Rs. 600 crores or so. For the years, for which this study was made, only the State Bank of India exceeded this limit. Even excluding the State Bank, the conclusion does not materially alter. It should, however, be mentioned that the figurc of Rs. 600 crores at which the average cost is fairly high is not one which is fixed for all times to come. Thus, the figure can move upward as a result of inflation. It can also move upward if the methods and procedures used in banks as well as their organisational structure are improved.

15.17 Thus, the two important conclusions from these two studies, namely, that bank branches can continue to derive benefit from economies of scale over a very large range and the size of a bank measured in terms of amount of deposits can also be quite substantial before the bank begins to suffer from diseconomies of scale, arguc for a rationalisation of the structure of banking. It would be useful in this context to discuss the manner in which the various factors which contributc to economies of scale or diseconomies of scale operate in the banking industry.

15.18 Economies or diseconomies of scale generally arise due to the following factors :

(*a*) *Economies*

(*i*) Fairly large amount of fixed expenses in the production activity.

(*ii*) Increased utilisation of existing factors of production.

(*iii*) Specialisation of labour in the production process resulting in greater rates of output.

(*iv*) Extra efficiency of plant and equipments and labour at higher volume of activity because of better scope for reorganisation.

(*v*) Favourable prices being obtained on bulk purchases of raw materials.

(*b*) *Diseconomies*

(*i*) Inefficiencies arising out of dissipation of management control.

(*ii*) Inefficient communications and consequent delays in operation.

(*iii*) Labour losing motivation due to sense of insignificance.

15.19 Of the different factors which contribute to economies of scale, specialisation of labour in the production process resulting in greater rates of output is of great significance to the banking industry in view of its highly labour intensive nature. This is a problem both of making proper utilisation of the available manpower by organisation and procedural changes as well as a problem of maintaining satisfactory employer-employee relations. Yet another way of increasing productivity in the industry is by using such mechanical aids as accounting machines, calculating machines and various other types of machines generally used in banks abroad. There is considerable scope for productivity increases in this manner inasmuch as the Indian banks at present make very little use of even the simpler types of machines. Similarly, by increasing the size of their branches wherever possible, banks can take advantage of existing fixed assets such as buildings by spreading their fixed capital expenditure over a larger output. Furthermore, as has been seen in Chapter 12 on Cost and Capital Structure, larger banks have an advantage both in regard to average interest rate on deposits as well as the average servicing cost of their advances.

(*ii*) *Problems of Management Control and Communications*

15.20 It is, however, the diseconomies in regard to management control, communications, delays and loss of motivation on the part of labour that have to be considered very carefully in any programme of structural reorganisation.

15.21 The problems of management control and communications for the efficient functioning of a bank can be considered from three angles. Firstly, it is necessary that there is proper communication between the head office and the branches regarding the policies of the bank in various matters and management control to ensure that these policies are properly followed. Systems of budgetary control and evaluation of branch profitability have already been recommended in the previous chapters for these purposes. These systems are such that they can be designed to suit the size of a bank. Next, there is the question of branch managers following proper procedures

to ensure the safety of funds lent to borrowers. Finally, it is necessary to ensure that the procedures designed to prevent frauds on the bank and losses due to negligence are properly adhered to at all times. The system of inspections as well as of training and management development aim at reducing such losses to banks. What is necessary, particularly in regard to the inspection system, is that it should not only be a fault-finding system but a system which also designs the correctives and thus tries to reduce the chances of loss as much as possible.

15.22 An argument has sometimes been advanced that in the present state of the physical communications system it is difficult to manage large branch networks. This would be certainly so if the management control were centralised in the head office to a very great extent. However, such a large measure of centralisation is not really necessary. For large banks it is possible to delegate responsibilities through a multi-tier structure in such a way that management is able to exercise effective control. In such a structure, the head office would be mainly concerned with problems of laying down policies and procedures for the branch offices to follow. In addition, the head office may have to undertake direct responsibility for handling important proposals or proposals which present particularly difficult problems. But this is as far as it need go as regards handling of the business of the bank. Moreover, the difficulties of physical communication are bound to disappear progressively. Already, the telex has contributed to a great extent to reducing communications delays. A more widespread use of this facilitiy would be of a considerable help to banks in their day-to-day work.

15.23 The diseconomies arising out of loss of motivation are certainly very important. But here again it is possible, through the adoption of appropriate personnel management policies, to reduce the incidence of such diseconomies. In a service industry it should be easier to cultivate motivation and ensure job satisfaction than in a capital intensive industry where jobs get routinised and labour has to conform its methods of work to suit the convenience of the machines.

15.24 The Commission consulted several management experts on these points. As regards the management aspect, the view of the experts was that the management control structures of the existing banks needed considerable improvement. With the reform of these structures, banks should be able to handle business which is both considerably larger in size and which is more diversified functionally as well as geographically than at present. The management experts felt that there was no constraint from the management control angle on the size of operations of a bank. It was always possible to devise a structure which was compatible with the size and type of business one aimed at. In other words, the prospect of diseconomies of scale in banking is not so discouraging as it might appear at first sight. Effective methods

are available to reduce their incidence. Hence, where increase in size is preferable on other grounds, it should be brought about by the use of such methods.

(iii) The Use of Competition Amongst Banks as an Instrument for Improving Their Operational Efficiency

15.25 One of the important arguments which has been advanced by a number of witnesses before the Commission in favour of the *status quo* for the national banking sector, is that it is necessary to have competition in banking industry in order to ensure operational efficiency. On the face of it, this argument appears to have considerable force. If valid, it implies that there should be as large a number of separate banks as possible and thus it could even argue for splitting up the 22 national banks into many more. On closer examination, however, it appears that in relation to the banking industry in India the argument is inconclusive . The problem of competition in banking can be looked at from the point of view of price competition and competition in the quality of service rendered. As far as price competition is concerned, the matter tends to be looked at mostly in terms of interest rates paid or charged by banks. Service charges (as has been seen in Chapter 12 on Costs and Capital Structure) are a comparatively neglected field. The general public is unaware of the differences in the service charges as between one bank and another since banks do not give much publicity to them. And, as has been shown in the chapter referred to, the banks themselves are not in a position to judge whether their schedule of service charges is the right one or not. So long as such a situation continues, the possibilities of using service charges as a device for competitive purposes remain unexplored, and the fact that there are a large number of banks does not ensure full and free competition. As regards interest rates, the accent of official policy has increasingly been in the direction of controls on various types of interest rates paid by or charged by the banks. The majority of the bankers in this country too are against competition in the matter of interest rates. They feel that as far as bank deposits are concerned, such competition would result largely in shifting of deposits as between the different banks and not in any increase in their total quantum for the banks as a whole. It is for this reason that the banks resorted to an inter-bank agreement on deposit interest rates in the late '50s. The authorities also seem to be of the same view. Their policy has been to discourage payment of interest on deposits in the nature of transactions balances with the banks and encourage longer term deposits. A secondary objective is to hold the scales even as between the large and the small banks by permitting the latter to offer somewhat higher rates to depositors than the former. As regards advances, the matter is somewhat complex. Firstly, banks are expected to follow a pattern of sectoral allocation of credit in conformity with the policy directives given to them. Secondly, several instruments of policy are used by the authorities to bring about the desired result and interest rate is only one of them. Thirdly, from the points of view of a

bank and its customer too, interest rate is only one of the considerations. Fourthly, in any case, if competition is really free, it will tend to make in the long run the lending rates of all banks equal at the lowest feasible level and the deposit rates equal at the highest feasible level. Till this is reached, there may be some under-cutting in lending rates or some practices of providing non-monetary benefits to the depositors. But this type of competition is unlikely to last very long. Further, in the case of the rural areas, it will not be possible to provide the branches of more than one or two banks in any one place, and the customers in these areas will not be able to get any advantages of competition among banks.

15.26 The net result of the working of the interest rate policy and the present structure of service charges thus is that there are some differences in prices of banking services as between the different banks. Since, however, the banks themselves are not inclined to use price competition in a purposeful manner, it is immaterial whether there are 22 banks in the national sector or more or less as far as this aspect of the matter is concerned.

15.27 Coming now to competition in the quality of service, this can be looked at from two angles : (*i*) the range of services offered, and (*ii*) the efficiency with which each of them is rendered. As regards range of services, it may be noted firstly that the majority of banks' customers need services like deposits, cash credit, bill discounting, term loans, the various types of remittances and safe custody, which are very well standardised. All large and medium sized banks in India are in a position to offer these. For any new type of service, a good deal of developmental work is necessary. This requires that banks make systematic arrangements for continuous study of the markets as well as of the methods and procedures employed by successful banks in this and other countries. It is obvious that the ability of a bank to do so increases with its size because work of this type pays dividends over the longer run and a bank should be able to afford the expense of such type of work until the dividends begin to come forth.

15.28 It has been argued that one of the advantages small sized banks have over large sized ones is that they are able to give personalised service to the smaller borrowers. While this is so, it does not constitute, except in very special cases, an argument in favour of a bank remaining small. For, as has been shown by the study of costs and profitability, small size results in low profitability. We have, however, recommended the establishment of a special class of small banks, *i.e.*, rural banks, because of the special nature of the problems arising in lending to agriculture. But, by and large, the ability to achieve a good diversification of portfolio is an important factor in the success of banks. It not only helps to achieve a good spread of risks but also encourages the expansion of a bank's business by bringing in different types of clientele to its doors. The client who comes to a bank for one type of service is likely in due course to entrust other types of business to the bank if he finds its service

satisfactory. In other words, if a small bank is successful, it has to grow into a large bank and it continuously tries to do so. Thus, from the point of view of increasing the range of services, the argument is in favour of having large sized banks.

15.29 Next we may consider the question of the quality of services rendered. It is evident that this depends more on the quality and attitudes of the personnel in a branch and therefore can vary from branch to branch within the same bank. Human relationships are very crucial in the banking industry. Customer satisfaction depends very largely on the degree to which the employees of a branch are able to render personalised services. This, therefore, is not a matter which depends on whether there are 22 or more or less than the number of banks in the national sector. It depends essentially on how well trained the officials in these banks are and what the banks do to maintain a uniformly high standard of service by its employees.

(iv) Monetary and Credit Policy Considerations

15.30 So far the question has been looked at from the point of view of the banks. We shall now consider it from a wider angle, namely, the problem of effective implementation of the country's monetary and credit policy by the banks. To begin with, it may be stated that although, at the time the various units were brought into the national banking sector, different goals were specified, by now it should be clear that the whole of this sector has to work for a common goal. This is why during the period following nationalisation a considerable amount of work has been done in getting all the banks in the sector together for evolving common policies and procedures. There is, however, a considerable degree of variation as regards performance between the various banks. The variation arises as a result of the differences that exist in the various banks in the methods and procedures of decision-making and implementation of decisions, in the policies relating to recruitment, training and promotions of staff that have been followed in the past and, to some extent, in the experience of the personnel of the different banks. It is obvious that the existence of such diversity leads to a good deal of waste of effort. Each new policy measure has to be translated by each bank into an action programme in terms of its own methods and procedures of communicating, working and performance evaluation. At the national policy-making level too it becomes difficult to evolve a policy that takes into account all these. Thus, so long as the different units continue their separate existence, it is difficult to get harmonious implementation of monetary and credit policies of the country. It would be much more convenient if the authorities had to deal with only a few large and equal sized units. This suggests that there is a good case for integration of the existing banking units into a smaller number of units.

15.31 The above considerations lead us to conclude that in the banking industry large sized units possess a number of advantages over the small sized

ones. The experience in our own country as well as in other countries fully corroborates this. Thus, in the U.K., which began with a number of independent banks all over the country, the process of consolidation has gone on to such an extent that there are now only 6 London clearing banks and 3 Scottish banks which cater to most of the banking needs of the public. To take a somewhat different example, in the U.S.A., where the unit banks have held sway for a long time, not only has the number of such banks declined from 28,442 in 1925 to 13,688 in 1970 but also the number of banks maintaining branches has increased from 720 to 6,452 during the same period. There has also been integration of the existing unit banks through such devices as chain-banking and group-banking.

15.32 In the light of the foregoing, the question may be asked at this stage whether it would then not be the best course to merge all the 22 banks in the national sector into one bank on the lines of the Life Insurance Corporation. In theory, a very good case can be made out for adopting this course. It would enable effective implementation of monetary and credit policy and would avoid wasteful competition for deposits or advances amongst the different banks, about which banks have expressed some anxiety. In particular, it would be able to adopt a well-defined differential pricing policy so as to satisfy the social priorities in the economy. Following this logic, one can indeed argue that there is no real justification for allowing the other banks in the private sector to continue as independent entities. One can envisage a state of affairs where there is only one banking institution owned by the Government, which mobilises the total savings of the community and distributes them to the various productive as well as to some extent the consuming sectors of the economy.

15.33 However attractive in theory such a course appears, the Commission would not advocate its adoption. For one thing it would raise enormous problems of integration of the various units into one bank and the Commission feels that it would be a waste of energy to attempt to solve these problems at this juncture when the need is for increasing banking facilities to the maximum extent. Moreover, although there is advantage in size and although competition in banking does not take the same form as competition in manufacturing industry, it is questionable whether the creation of one bank is really a satisfactory solution. One of the basic problems in banking is that it is an industry in which the service has to be rendered largely on the spot. The customers of banks come more frequently into contact with bank employees than is the case, say, in life insurance. During the course of the Commission's discussions with the representatives of various organisations and with independent experts, there was unanimity of opinion on the point that whatever structural reform is brought about in banking, it is of the utmost importance to ensure that the customers of banks had the freedom to change their bank, if they did not like the quality of service rendered by it or if they did not get the kind of facilities they wanted. In fact, repeated complaints were

made against the alleged practice of banks in the national sector prohibiting transfer of accounts from one bank to another without the consent of the bank which currently held the account. The borrowers felt that this was an unjustified interference on the part of the banks with their freedom to deal with the bank of their choice. While the allegation itself is not strictly correct, the Commission recognises the force of the argumnet. In the Commission's view, it would be desirable to so reform the structure that a reasonable choice is always available to bank customer to choose their bank.

Basic Considerations Underlying Restructuring the National Sector

15.34 The present number of 22 separate banks in the national sector is a historical accident. In the opinion of the Commission, not only is the number too large but also the distribution of banking facilities provided by these banks is quite uneven as between different States. In reducing the number of banks in this sector, three types of suggestions can be considered. First, the restructuring might be such as to form 8 or 9 all-India banks. Secondly, the restructuring might be achieved by forming a similar number of regional banks, *i.e.*, banks which operate over contiguous geographical areas. Thirdly, an altogether different method of restructuring would be to form banks on functional lines, that is to say, there might be one savings bank to collect savings of the household sector, one bank for large and medium scale industries, one for small scale industries, a bank for foreign exchange, another for agriculture, and so on. All these functional banks would have to operate on an all-India basis.

15.35 So far as restructuring on functional lines is concerned, the Commission feels that in the conditions obtaining in our country this method does not offer any advantages. Moreover, it would involve a very drastic change in the institutional structure which can cause serious disruptions in the economic activity until such a reorganisation begins to function in an efficient manner.

15.36 Considering the first two alternatives, the Commission feels that formation of a number of all-India banks would be somewhat costlier than the second alternative without offering any distinct advantages. In the Commission's view, the important considerations on which the reorganisation should be based are :

(*i*) The reorganisation should be such that it allots a fair proportion of well developed areas and backward areas amongst the constituent units. At present, some banks have a considerably higher proportion of the well developed areas, while others have their branches mostly in the backward areas. In other words, there should be some measure of equalisation of both the nature and the volume of banking business amongst the different units.

(*ii*) As far as possible the units should be compact ones operating over areas that are geographically contiguous.

(*iii*) As far as possible the customer should have a choice of at least two or three banks particularly in larger centres of population.

Since, however, there already exist a couple of banks besides the State Bank of India, which have a fairly well distributed network of branches all over the country, it would be advisable not to disturb these banks. Thus, there can be three all-India banks and five or six formed on broad regional[1] lines. The all-India banks should aim at having branches in all population centres at the level of district towns and above. The other banks, each one of which can work over the areas of say 2 or 3 neighbouring States, would also have a branch network below the level of district towns in the areas of operation of the concerned State. Furthermore, in order to give a reasonable choice to the public, banks in two neighbouring regions may be allowed to open branches below the level of district towns in each other's regions.

15.37 Thus, under such a reorganisation, persons residing in district towns and population centres above the level of such towns can have a choice between the three all-India and at least two, if not more, regional commercial banks. For places smaller than the district towns, there will be at least two commercial banks in each district. In addition, there will be the network of co-operative institutions including the rural co-operative banks or the rural subsidiary banks in such areas.

Internal Reorganisation of the New Banks

15.38 In such a structural reorganisation, the total number of banks in the national sector could be reduced to nine, eight or seven. Each unit will have between 1,500 and 2,500 branches to begin with, and between them they would be responsible for opening of between 1,800 and 2,000 branches a year, *i.e.*, 200 to 250 branches per unit. In order to be able to conduct their operations efficiently on such scale, the internal organisation structure of each of these units will need to be radically transformed.

15.39 The extent of decentralisation in geographical terms as well as in terms of the internal power structure of a bank needs to be worked out by taking into account the special features of banking. These are as under :

(*i*) The product mix of a branch of a bank depends very much on the location of the branch. Thus, some branches collect considerably more deposits than what they lend. Others show an excess of advances over deposits. Then again the distribution of deposits into the various categories such as current, savings and fixed, differs from one type of locality to another. Similarly, the distribution of advances into industrial, agricultural, etc., depends on the locality of the branch.

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[1] These regions need not necessarily be the ones shown earlier in Table 3·2.

(*ii*) The management control system is very closely linked with the precise composition of the product. This is because of two factors —

(*a*) The basic differences in the requirements of the different products, *e.g.*, types of deposits or types of advances or types of remittances, etc.

(*b*) The monetary and credit policy measures are directed at promoting certain types of products of banks and curbing certain others. Thus, under selective credit control, there are various restrictions on advances of certain types while banks are asked to give attention to the needs of certain other sectors.

(*iii*) Because of the different rates of growth of the economies of the different areas, bank branches working in various areas need to acquire intimate knowledge of the conditions and problems of the economies of these areas and have to decide the extent to which they can assist the process of development. This would imply that there should be a considerable degree of decentralisation of loan making power in the structure of a bank. It would also imply that special efforts are made by banks for development of backward areas. Indeed, as these backward areas become conscious of the possibilities of development, they feel that they have been neglected by the banking system. Complaints were voiced before the Commission by the representatives from the less developed States that deposits mobilised in their regions were being used by the banking system to help the economies of the more developed States. It was of course not altogether the fault of the banking system that this happened. After all, the banks supply only one of the major inputs necessary for the development of any region. It was, therefore, natural that bank credit flowed where all the other inputs were also readily available and where the development of the regions was taking place. Since States with well developed ports, inland communications system and readily available supplies of raw materials attracted the development of industry of various types, they became the major users of bank credit. Besides, the statistics of bank credit, which are based on the loan transactions of the head offices of industrial units, do not show the actual geographical distribution of the places where these loans are disbursed. Nevertheless, there is some point in the sense of grievance harboured by the less developed States. It is that the banks remained a passive organ in this process and did not show imagination and enterprise to develop the local potential. The programme of decentralisation has to take due account of this type of problem. The manner in which this can be done is discussed in the following paragraphs.[1]

The Present Organisational Set-up of Major Banks

15.40 The present organisational set-up of the major banks in the country has been described in brief in Chapter 11 on Bank Operating Methods

[1] See also Chart No. 15·I annexed to this chapter.

and Procedures. Suggestions for bringing about an improvement in the departmental set-up at the head office level of banks as also creation or re-organisation of regional offices, for establishing closer contacts between the decision-making and implementation authorities, have also been made in that chapter. While these suggestions are applicable to the present set-up of the national banks, the matter requires to be considered further in the context of our recommendations for restructuring these banks into larger sized units.

15.41 Analysis of the information regarding the organisational set-up of the banks in the national sector indicates that most of these banks were having separate departments at their head offices for such specialised subjects as foreign exchange, advances to small scale industries, advances, to agriculture, legal matters, and so on, while the operational control over the branches (*i.e.*, consideration of advance proposals and scrutiny of periodical returns) was being exercised by creating groups, zones or sections at the head office on a territorial basis. As stated in Chapter 11, the set-up was thus functional-cum-territorial, though the distribution between the two categories differed from bank to bank. It was also observed that in the case of two of these banks, the normal head office functions were being exercised from two different centres. Three banks did not have any regional offices, while in the case of four others some branches were controlled directly by the head office, while the remaining were controlled through regional offices. The functions entrusted to and the authority vested in the regional offices by the banks also differed widely. One of the banks had as many as 33 regional offices, while the regional offices created by other banks ranged between 2 and 13 ; the maximum number of branches under a regional office was 140 and the minimum was only 6. The organisational set-up at the branch level was based on lines of activity, *i.e.*, deposits, advances, collections, remittances, accounts, cash, etc. ; the bigger branches had a number of departments in view of their range of activities, while the small ones had only a few.

15.42 The organisational structure of the State Bank of India is somewhat different from that of the 14 nationalised banks. It already has a well defined system of decentralisation through the formation of circles and the statutory Local Boards. The State Bank has decided to modify this structure further in the light of the expert advice it has received. Thus, with the exclusion of the State Bank of India, no other national bank has a well thought out scheme of decentralisation on a geographical basis.

15.43 The Commission was informed that a number of these banks were considering creation or reorganisation of regional offices. Generally speaking, the principle of some degree of geographical decentralisation seems to have been accepted by them, but the criteria, on the basis of which such decentralisation should be made as well as the degree of decentralisation, differ between the different banks. This is only natural because

each bank would tend to look at the problem from its own point of view. If this process is allowed to go far, it could only give rise to confusion and waste. When such decisions are taken, they are generally liable to be influenced considerably by the past history of the bank which would have determined the geographical and functional distribution of the bank's business and not with reference to the future course of development of the national sector as a whole. Since, after nationalisation, all the banks in the national sector have to undertake similar responsibilities as regards geographical and functional diversification of their business, it follows that the future course of development of the different banks would be on lines which are much more parallel than in the past. It follows, therefore, that the structural organisation of the various banks should be on more or less similar lines. Moreover, from the point of view of the economy, the process of reorganisation has to avoid waste in any form. The programme should be so designed as to facilitate the restructuring recommended. The essential elements of such a programme are : (*i*) the set-up should have adequate flexibility to accommodate growth and rapid change and encourage development of managerial abilities of the personnel; (*ii*) to ensure prompt service to various categories of customers, there should be adequate decentralisation of the decision-making functions ; (*iii*) simultaneously, there should be a built-in system of supervision and control over the different units within a bank as well as a systematic flow of management information to the different levels of management. Keeping the above considerations in view, the Commission recommends that the organisational set-up of the restructured national banks should be on the lines indicated below :

(*a*) *Branches*

15.44 The Branch Manager at the large and medium sized branches, and to some extent even at the small branches, should be relieved from day-to-day chores to enable him to devote sufficient time to planning, co-ordination, control, training, public contact and business development. The number of departments in each office would depend upon the range of activities and the volume of business. In large branches, there should normally be separate departments for deposits, collection, remittances, foreign exchange business, safe deposit vaults, Government business, advisory services, accounts, cash, clearing, advances to large and medium sized industries, advances to agriculturists, advances to small scale industries and other small borrowers, etc. Each department should be headed by an Officer-in-Charge, suitably designated, who should have sufficient authority to handle the bulk of the business independently without reference to the Branch Manager. In this context, the Commission has considered the suitability of the market segmentation approach recommended to the State Bank of India by its Management Consultants. The essence of this approach is the setting up of different divisions at large branches relating to different groups of customers, each division handling all types of work emanating from the particular group of customers.

This approach has no doubt the advantage of meeting the total range of banking needs of a group of customers in one division, but it involves extensive changes in accounting procedures and its utility requires to be proved after a trial on pilot basis over a sufficient length of time. We have, therefore, suggested the continuance of the departmental set-up in branches of the restructured national banks on activity basis. At the small branches, there need be only a few departments and at rural branches or sub-offices, it may not be necessary to create any departments at all.

(*b*) *Zonal Offices*

15.45 There should be a Zonal office for controlling and guiding about 200 to 300 branches depending upon such factors as transportation and other communication facilities. Each zone will comprise a number of territorial divisions. As the zone is to be formed for administrative convenience, it is not necessary that the jurisdiction of zones should be identical in respect of different banks. Besides exercising operational control over the branches, the zonal offices should maintain functional departments for planning and budgeting, public relations, economic analysis, statistics, management development, small scale industries, small borrowers, agricultural advances, finance to exporters, etc., to attend to the developmental side of the work. The operational work at the zonal level would be handled in one department and would mainly relate to the sanction of advances in excess of the discretionary powers vested in the Branch Managers, staff matters, premises, etc., relating to the branches under the jurisdiction of the zone. This department should be divided on a territorial basis, each division being headed by a Divisional Manager who would be in charge of about 50 branches. The zonal and the Divisional Managers should have adequate discretionary powers so that the bulk of the advances proposals emanating from the branches are decided by them without reference to the head office. The zonal office should maintain field staff for keeping close contacts with the branches in order to solve their developmental as well as operational problems and the Divisional Managers should also visit the branches within their jurisdiction at periodical intervals. Apart from supervision and control over the branches, the zonal office should, through the functional departments, engage in activities of economic analysis, data collection, arranging for surveys and studies, development of business, etc., within the framework of overall policies regarding deposit mobilisation, finance to various sectors of the economy, branch expansion and widening the range of services, laid down by the head office.

15.46. While the administrative set-up should be as above for the purpose of collection and processing of statistical data zones may be divided into 'Areas', each area consisting of a group of contiguous districts formed on the basis of similarity of cropping patterns, industrial development and other economic factors. Formation of 'Areas' on the basis of such economic factors will facilitate formulation and implementation of credit policy. As suggested

in paragraph 13.48 of the chapter on 'Information System of Banks', it would be advantageous to have uniform 'Areas' for different banks in the country.

(c) *Head Offices*

15.47 The functions of the head office should be planning and budgeting for the bank as a whole, setting out goals for achievement for zonal offices and keeping a watch on their performance, formulation of policies and plans of activities for various operational matters and giving guidance and support to the zonal offices. Besides, they have to attend to other essential central office functions, *e.g.*, investments, central accounts, inter-branch accounts, O. & M., scrutiny of control returns obtained from branches and sanction of large advances which are beyond the powers vested in the Zonal Manager and handling the very difficult problems.

15.48 The head offices of national banks at present attend also to the internal audit and inspection of the branches. In this regard, we have already suggested in Chapter 11 that this function should be entrusted to a Central Agency. As in the case of zonal offices, the head offices should maintain functional departments for budgeting and profit-planning, economic research and statistics, management development, public relations, organisation and methods, advances to different sectors, legal matters and foreign exchange ; besides these, there will be the usual departments for control over branches, central accounts, inter-branch accounts, investments, personnel, etc.

15.49 The top executives at the head office should keep themselves free to attend to matters relating to policies and the working of the bank as a whole and should divest themselves of routine matters by delegating adequate powers to other senior executives. As suggested in paragraphs 14.57 and 14.58 of Chapter 14 on Management Development in Banks, internal committees should also be constituted for sharing the responsibilities and educating the officers in correct decision making.

Committee of National Banks' Chairmen

15.50 It will be necessary to provide for a machinery that will co-ordinate the regular banking activities of these restructured banks. The Reserve Bank will continue to perform its functions of implementing the monetary policy through its instruments and through its statutory powers over the banks. The Government of India, as the owner of the banks and as the authority responsible for integrating the economic planning policies in all sectors with the credit policy of the banks, will lay down the principles and priorities that the banks will keep in view in their operations. There will still remain a large number of problems on which inter-bank co-ordination will be necessary. This will be specially so because there should not be any substantial difference

between the working of one Government-owned bank and another. They are all parts of the same system and they should not follow methods and techniques which are different in different units. And there should not arise any conflict in operation, nor any hindrance to the smooth flow of banking funds from any part of the country to any other part.

15.51 We recommend that a standing committee of the Chairmen of the reorganised national banks be established for the purpose of securing the required co-ordination. A representative of the Reserve Bank and a nominee of the Government of India may be associated with this committee, but decisions should be taken by the banker-members and one of them, selected either by rotation or by periodic election, should be the Chairman of the committee. The committee should meet frequently and the meetings should be held by rotation in different cities.

15.52 This committee will not be a policy-making body. The function of prescribing banking and credit policies has definitely to be undertaken by the authorities responsible for prescribing policies in all economic matters, *i.e.*, by the Government of India and the Reserve Bank of India. The main function of the proposed committee will be to devise effective and efficient methods for implementing the policies laid down by the policy-making authorities. Thus, this committee will deal with a wide variety of inter-bank problems, like clearing arrangements, collection of bills, procedure and terms and conditions for different types of advances, correspondent bank relations, inter-bank movement of funds, and posting of senior officers who have reached a level where they can be transferred from one bank to another.

15.53 A very important function of this committee would be the supervision and control of the 'Lead Bank' system. The adoption of the regrouping recommended by us will necessitate some re-allocation of the districts among the banks. Since even after restructuring there will be differences in the operational efficiencies of the new banks, it will be necessary to allocate the Lead Bank districts to the new banks in the light of their own potential for expansion; in particular, the less efficient units should be allowed to improve their working before they are asked to take on the Lead Bank responsibilities. Besides, there should be a body which would keep a watch on the progress of work under the Lead Bank scheme. If any bank has failed to discharge its 'Lead Bank' responsibilities in a satisfactory manner, steps may be taken to remove the obstacles and to provide the necessary impetus. In extreme cases, it may be necessary to transfer some districts from the 'Lead Bank' charge of one of the regrouped banks to one of the three all-India banks. The proposed committee should be the appropriate authority for this purpose. We have discussed in a previous chapter the deficiencies and difficulties of the Lead Bank scheme as now operative. We feel that a committee of Banks' Chairmen will be able to give to the Lead Bank scheme that type of leadership the scheme as a whole requires.

15.54 The Commission also recommends that this committee should function as an advisory body to the policy-making authorities. With the banking expertise it will have, this committee can initiate and put forward practical and purposeful suggestions for attaining the policy objectives of the authorities.

INDIAN COMMERCIAL BANKS IN THE PRIVATE SECTOR

15.55 As regards the existing Indian commercial banks in the private sector, only such of those which show good performance should be allowed to continue. The test of good performance would be a rate of growth of business at least equal to the average rate of growth for the banking system as a whole and high standards of conduct of business as judged by the Reserve Bank. Such of those banks which do not satisfy these criteria should be amalgamated amongst themselves or with a bigger bank under a time bound programme.

FOREIGN BANKS

15.56 As regards the foreign banks, they may be allowed to continue as at present since their branch expansion is in any case limited to port towns and since their share in the total banking business in India is fast diminishing.

ENTRY OF NEW UNITS IN THE BANKING SYSTEM

15.57 Two methods exist at present for the entry of new units in the banking system. For a bank to come into existence as a commercial bank, it must first register itself as a company under the Companies Act, 1956, and then obtain licence from the Reserve Bank of India under the Banking Regulation Act, 1949. Alternatively, the bank could be registered as an urban co-operative bank and a licence from the Reserve Bank obtained. The procedure for the establishment of a commercial bank is more difficult than that for an urban co-operative bank. Also, account has to be taken of the fact that a newly established commercial bank is likely to find it very difficult to compete with the existing banks particularly those in the national sector, as the new bank would have all the disadvantages of a small size and lack of experience. An urban co-operative bank can well come into existence as it operates over a fairly small field and generally caters to the needs of the small borrowers. For these reasons, the Commission considers that unless there are some exceptional circumstances, it is not necessary for the present to establish new commercial banks either as independent units or as subsidiaries of existing banks, except the rural subsidiary banks recommended in Chapter 8.

MEASURES FOR RESTRUCTURING NATIONAL BANKS

15.58 (1) The Commission recommends that early steps should be taken for re-organising the national banks into two or three all-India banks

and six other banks each specialising in developing banking services in a broad region, on the lines described in paragraph 15.36, and the private Indian commercial banks in paragraph 15.55.

(2) There should, however, be no slowing down of the rate of opening new branches, but the new branches of the national banks should be in areas selected on the basis of the principles indicated earlier. Thus, the constituent bank of the proposed regional banks should be asked to open branches within the area of the States in which the regional bank is expected to operate. An all-India bank should concentrate on opening branches at district centres or large towns, whenever there is need for new branches in these centres.

(3) An important aspect of re-organisation is the rationalisation of the existing bank branches. Wherever there are too many branches of the national banks in a restricted area, the number should be reduced. The banks, whose branches are closed down on account of such rationalisation, should utilise the released manpower in opening branches in areas allotted to them, particularly in unbanked areas. This may require some inter-bank exchange of personnel.

(4) In metropolitan cities, both the all-India and the regional banks should be allowed to open branches, so that every bank can have a reasonable share of the business in these centres.

(5) Further, the Commission recommends that at the end of 10 years from the commencement of the reorganised banks, there should be a comprehensive review of the manner in which these banks have worked, the size which they have attained and the further organisational changes that will be necessary in the light of the future development of these banks.

CHAPTER 16

THE NEED FOR SPECIALISED FINANCIAL INSTITUTIONS

INTRODUCTORY

16.1 We have made recommendations about the restructuring of the banking system in the preceding chapter. A relevant question which arises in connection with the designing of an appropriate financial system of the country is whether additional specialised financial institutions are required to meet credit needs of any specific sectors of the economy. This question, among other things, was referred to the Study Group on Non-Banking Financial Intermediaries (referred to as 'the Group' in this chapter)[1] appointed by the Commission. The present chapter is based on the Report of the Group.

16.2 There is a view-point that the financial requirements of different sectors of the economy can be served better if specialised institutions are created to cater exclusively to their respective needs. The opposite view is that the existing financial institutions are adequate and can be adapted to look after the needs of all the sectors. In considering the need for setting up specialised financial institutions, the objective to be kept in mind should be to provide the economy with institutions which can serve the financial needs of all sectors efficiently and economically. The major factors which should be taken into account in this examination are : Will the new institutions be able to mobilise additional resources, and/or will they be able to provide facilities which are clearly required and cannot be financed economically and efficiently by existing institutions? Is manpower available in the country for staffing the proposed institutions? These factors have been kept in mind in examining the need for setting up the following types of specialised institutions: Merchant Banking Institutions and Acceptance and Discount Houses, Export-Import Bank, Specialised Institutions for Small Scale Industries and Small Business Units, Specialised Institutions for Consumer Credit, Specialised Savings Banks and Specialised Institutions for Housing Finance. The question of setting up a specialised Agricultural Bank has already been discussed in Chapter 10.

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[1] See Appendix III for the composition and terms of reference of the Group.

Merchant Bankiing Institutions and Acceptance and Discount Houses

16.3 Merchant banking type of institutions in foreign countries are financial intermediaries which offer varied services like the promotion and syndication[1] of industrial projects, investment management and advisory services. In the U. K., they also undertake acceptance business to enable the bills of their clients to be discounted at low rates of interest. The questions which require examination are whether such institutions are required in India and, if so, what should be their functions and the best form of their organisation.

16.4 India has built up a wide base of industrial structure. With acceleration of the process of industrialisation, the demand both for financial and other services required by the industrial sector will grow. The growing emphasis on the development of industries like fertilisers, pesticides, petrochemicals and electronics which are highly sophisticated and complex in character will require specialised services. Both the scale of operations and the investment outlays in these industries would be much bigger than hitherto. Secondly, the policy of decentralisation and encouragement of small and medium industries will necessarily involve the problem of providing technical and financial advice to these industries. Thirdly, with the changing emphasis in lending policies of organised credit institutions from security to the creditworthiness of business, corporate enterprises will require the services of a financial intermediary in respect of project appraisal, financial management, etc. Fourthly, the elimination of managing agency which used to offer its services to companies under its management for securing financial resources from financial institutions, has created a vacuum which needs to be filled. Also, the middle sector industries which did not have the benefit of the services of managing agencies will continue to feel the need for such services. Finally, there is a distinct possibility of Indian enterprises investing in joint ventures abroad. These may raise certain problems which have not so far been faced by Indian industries.

16.5 The question is whether the financial community consisting of commercial banks and term-lending institutions, will be able to offer these services. Commercial banks have only recently begun to acquire experience of project lending. The term-lending financial institutions are mainly finance-oriented, being concerned with financing the new projects or existing ones. These institutions have acquired considerable experience of the problems involved but they have hardly any personnel or time for assisting or guiding entrepreneurs in preparing their projects. A study published in the Reserve Bank of India Bulletin showed that inadequate project preparation, defective technical planning, inefficient or indifferent management,

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[1] Syndication of projects may involve dealing with different problems connected with new projects, helping companies in reorganisation and in negotiations about mergers, etc.

financial difficulties of promoters, etc., were mainly responsible for delays in the execution of medium and large-sized projects incorporated in the Second Plan in the private sector.[1] It would appear that there is a *prima facie* case for the creation of institutions to offer services like the preparation of projects and giving advice on management and financial problems.

16.6 These institutions which should give their services to Indian companies and to Indian joint ventures abroad would be required to perform the following functions. On the basis of examination of a project, the institutions should design and negotiate a financial package which would meet the specific type and terms of financing needed by the client. In appropriate cases, they may also agree to guarantee the loans obtained by a company. They should also offer various services involved in the syndication of projects like assisting in the reorganisation of companies, negotiation about mergers, making feasibility studies of a project and giving advice on the rules and regulations of stock exchanges. The proposed institutions will be particularly useful to medium-sized business which finds it very difficult to float an issue in the market. In such cases merchant banking institutions can help by placing issues privately with financial institutions at reasonable terms.

16.7 Merchant banking institutions should also offer investment management and advisory services particularly to the medium and small savers. With the exception of a few firms of brokers registered with the stock exchanges, there is practically no investment advisory service in India. There are thousands of persons in the medium income ranges, who are unable to manage their funds and who sometimes fall victim to unscrupulous manipulators. It may be mentioned that some of the commercial banks used to maintain accounts on behalf of big clients like ruling princes, *zamindars* (landlords), etc., and make investments on behalf of them. The proposed institutions may agree to maintain accounts of Rs. 10,000 and above and invest funds on behalf of their individual clients. They should also be able to manage provident funds, pension funds and trusts of various types.

16.8 Another area in which the services of merchant banking type of institutions are used in foreign countries is in respect of acceptance credit and discounting functions. The need for such services arises where the bill market has been developed. When a bill of exchange is accepted by a house of established reputation it automatically becomes acceptable to sellers of goods and to the lenders of money even if they themselves do not have any knowledge of the creditworthiness of the drawer of the bill. Also, the bills so accepted can be discounted at fine rates.

16.9 The question is whether the proposed merchant banking institutions should perform the functions of acceptance and discount houses. Two

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[1] Jakhade, V. M. and Bhatt, H. C., "Time-lags in the Implementation of Industrial Projects and in Returns on Investment", *Reserve Bank of India Bulletin*, March 1968, p. 329.

factors which are of basic relevance in this connection are the reputation and financial standing of the acceptor and the existence of a system for collecting credit information on borrowers. Under the present circumstances, it should be possible for commercial banks to undertake acceptance and discounting business because with their widespread network of branches they satisfy both the above conditions. In due course, however, after the bill market is sufficiently developed and the proposed merchant banking institutions acquire the necessary expertise, they may also enter the acceptance and discounting business. At present, therefore, there does not seem to be any need for specialised acceptance and discount houses though such institutions may be formed as joint stock companies in course of time to offer these facilities as well as for functioning as a money market intermediary to even out the demand for and supply of short-term finance in the market. As suggested in the chapter on Indigenous Bankers, the indigenous bankers could in due course also transform themselves into discount and acceptance houses.[1] These institutions as and when they come to be set up should work under conditions prescribed by the Reserve Bank.

16.10 Once the need for setting up merchant banking institutions is accepted, the questions of their structure and administration arise. In the Commission's view, initially there could be four merchant banking institutions located in Bombay, Calcutta, Madras and New Delhi, set up by commercial banks and specialised financial institutions. Later, branches can be set up by these institutions at other important centres also. Subject to proper safeguards to ensure the integrity of operations and depending on investment expertise and management standards, other agencies may also be allowed to set up merchant banking institutions. It may be emphasised that for the successful working of the proposed merchant banking institutions it will be necessary to organise a training programme for their staff because the major resources for these institutions will have to be their skill and expertise.

Need for Export-Import Bank

16.11 The term 'Export-Import Bank' is capable of various interpretations. It may refer to an institution which extends credit to domestic exporters or foreign importers or which facilitates foreign investments or which manages the foreign branches of commercial banks in a country. The need for an Export-Import Bank in India will be considered here in terms of its functions to provide export credit and attend to the related problems such as providing guarantee for export loans as well as covering other risks like exchange rate variations, locating individual exporters, identifying foreign markets and importers, etc.

16.12 Given the role of exports in the strategy of economic development in India, the provision of adequate export credit at cheap rates has

[1] See Chapter 18, paragraph 18·100.

assumed importance. This is specially so because of changing structure of exports from the traditional items like jute and tea to items like machinery, metals and engineering goods, the market for which is highly competitive because foreign suppliers are prepared to offer easy deferred payment terms to their buyers.

16.13 Three major aspects of export credit which are relevant for the consideration of the need for an Export-Import Bank are : (*a*) availability and cost of credit, (*b*) insurance of risks and guaranteeing of export credit, and (*c*) system of collecting information on foreign markets and creditworthiness of importers, etc. It is in respect of these aspects that the adequacy or otherwise of the existing export credit arrangements will be judged.

16.14 The institutions which are at present providing export credit in the country either directly or through refinance are : (*i*) commercial banks, (*ii*) the Industrial Development Bank of India, and (*iii*) the Reserve Bank.

16.15 Commercial banks provide short-term as well as long-term credit to exporters both at pre-shipment and post-shipment stages. The quantum of finance provided by commercial banks to export sector has shown a steady progress. The amount of export credit made available by scheduled commercial banks increased by Rs. 119 crores to Rs. 382 crores in the two year period from June 1969 to June 1971. As a proportion of total credit, it has gone up from 7.3 per cent to nearly 8 per cent. Commercial banks have also relaxed their procedures in respect of such credit.

16.16 The Reserve Bank and the Industrial Development Bank supplement the resources of commercial banks. The former refinances scheduled banks in respect of their short-term credit not exceeding 180 days. The basic object of the Reserve Bank's policy has been to insulate the export sector from the impact of its policy to restrict domestic credit. The history of its policy in respect of export credit has been one of liberalising refinance facilities to commercial banks.[1] Refinance of export credit is made on concessional terms and borrowings by scheduled commercial banks for the purpose are not taken into account in calculating the net liquidity ratio. Export credit given by banks is also exempted from the 'norms' relating to unsecured advances and guarantees given by banks to exporters.

16.17 The Industrial Development Bank supplements the resources of commercial banks both by way of refinance and participation loans in respect of their medium-term advances. Refinance is provided at concessional rates. With the increasing importance of term credit, the Industrial Development Bank introduced a scheme in December 1968, for providing in participation with approved commercial banks, direct term finance at a

[1] See Chapter 2. Also see the Chart attached to Chapter 11 of the *Report of the Group*.

low rate of interest and guarantee facilities to industrial concerns for export of engineering goods or services on deferred payment basis.

16.18 As for the cost of credit, the maximum rate which scheduled commercial banks can at present charge on their pre-shipment and post-shipment credit, other than credit provided to exporters on deferred payment basis, cannot exceed 7 per cent. The maximum rate on deferred payment export credit is 6 per cent. According to information collected by the Commission, in exceptional cases some commercial banks charge a rate of interest below the prescribed maximum. In order to compensate commercial banks for the relatively low interest that they are allowed to charge for their export credit, the banks receive a subsidy of 1.5 per cent from the Government on their total outstanding advances for exports. It is generally believed that the cost of export credit in India compares favourably with the cost in many foreign countries.

16.19 It will thus be seen that from the point of view of availability and cost of credit, the present institutional arrangements will not be improved by the creation of a specialised institution. The existing arrangements themselves can be improved, for instance, by extending the provision of export credit facilities to the inland centres in the country[1]. There is also the question of introducing buyers' credit in cases where the Indian exporter has to offer deferred payment terms to the foreign buyer. In a number of cases, deferred payment exports or contracts are made on Government to Government basis. The real problem, therefore, arises in those cases where a private Indian exporter is impelled by competitive conditions to offer credit to the foreign importer for a long period. The exporter can get credit for the purpose from the Indian banking system but it is said that he has to carry the liability of repayment of loans in his books and his borrowing capacity may, therefore, be affected. It would appear that the banks should take the contingent character of the liability into account particularly when the exports are covered under the Export Credit and Guarantee Corporation (ECGC) policy. In extending buyers' credit there would also be the problem of ascertaining the creditworthiness of foreign buyers. It is understood that the question of introduction of buyers' credit in India is under the consideration of the Industrial Development Bank.

16.20 It is sometimes contended that if a specialised Export-Import Bank is set up, it can take care of all the export credit problems of an exporter so that he does not have to go from one institution to another. For example, at present an exporter has to go to a commercial bank for obtaining a loan, to the ECGC for export credit guarantee and to the Industrial Development Bank in the case of participation loan arrangements. The proposed specialised bank, it is contended, can also take care of the import content of exports by securing the necessary foreign exchange and import permit for the

[1] See Chapter 11 paragraph 11·70.

exporter. The Commission feels, however, that it is not necessary to create a new institution for co-ordinating the efforts of different institutions. Consultative and Informal Groups constituted by the Industrial Development Bank, can be entrusted with this function.

16.21 Another argument given in favour of establishment of a specialised institution is that it can borrow in foreign markets more easily and economically to meet the credit requirements for financing import orders of large magnitude like purchase of ships and aeroplanes. This is not a weighty argument because if a foreign capital market is really open to India, the Indian commercial banks can help their clients to raise loans there either through their branches or correspondents abroad.

16.22 So far as the question of providing insurance or the guarantee cover for export loans is concerned, the ECGC has progressively liberalised and extended the coverage of its schemes. A majority of banks in their replies to the Commission's Questionnaire felt that ECGC policies are beneficial both to the exporters and to themselves.[1] It is not clear how the creation of a specialised institution will improve the guarantee schemes. There is one lacuna in the present schemes, *viz.*, the absence of insurance against the risk of variations in the rates of foreign exchange. This problem is solved in other countries by the exporters invoicing their exports in their own currencies. The alternatives available to an Indian exporter for covering exchange risks are limited. Forward cover is expensive and is available only for 6-12 months. The insistence of an Indian exporter to invoice his goods in Indian currency or to incorporate a gold clause in contracts may not be acceptable to foreign importers. Hence, the Commission strongly feels that the authorities should make suitable arrangements for providing exchange cover on reasonable terms in respect of exports made on long-term deferred payment basis.

16.23 Another area in which there is scope for improvement in the system of export credit is in respect of the pooling of information relevant from the point of view of exporters. At present, there are a number of institutions which collect useful information. These are commercial banks, Export Credit and Guarantee Corporation, Industrial Development Bank, Trade Development Authority, State Trading Corporation, Export Promotion Councils, Commodity Boards, Institute of Foreign Trade and large export houses. There is at present no system under which the valuable and costly information available within the country can be pooled. The Industrial Development Bank is in an excellent position to obtain the information, keep it uptodate and make it available to commercial banks and others. Hence, on this ground also, it would appear that there is no need for creating a specialised bank for export credit. It will also be appreciated that if a

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[1] They have, however, given some suggestions for the improvement of the schemes. See paragraphs 11·29 and 11·30 of the *Report of the Group*.

specialised institution catering only to the requirements of exporters is created, the concentration on one type of business can be a source of risk to it. Commercial banks, which in India are multi-purpose credit agencies, can combine export credit with their other activities. Also, if a specialised all-India institution is created, there will be difficulties in finding adequate financial and man power resources.

16.24 In view of the above considerations the Commission believes that at present there is no justification for the creation of an Export-Import Bank.

Need for Creating Specialised Financial Institutions for Small Scale Industries and Small Business Units

16.25 The question whether specialised institutions for small scale industries and small borrowers are needed can be considered on the basis of the following questions : (*a*) Are the existing financial institutions adequate for the purpose ? and (*b*) Will the creation of a centralised agency have any special advantages to offer ?

16.26 The Group felt that although the flow of credit to the small scale industrial units from the organised financial system has been increasing, the gap between the requirements of credit and the supply of credit cannot be easily filled by the end of the Fourth Five-Year Plan. Institutional agencies which meet the credit requirements of small scale industries are : (*a*) State Governments giving loans under special Acts/Rules, (*b*) State Financial Corporations (SFCs), (*c*) National Small Industries Corporation which supplies machinery on hire-purchase basis, (*d*) State Small Industries Corporations and State Industrial Development Corporations, (*e*) State Bank of India and its subsidiaries and other commercial banks, and (*f*) State Governments which build factory accommodation to accommodate industrial estate. There are in addition special agencies in the States, *e.g.*, Gujarat Industrial Investment Corporation and State Industrial and Investment Corporation of Maharashtra. Industrial co-operative banks and urban banks as well as State and central co-operative banks have also been giving financial accommodation to small industries and small artisans and craftsmen.

16.27 It will be seen that there are already a number of financial institutions in the organised sector which cater to the credit requirements of small industries and the small business sector. Among the organised financial institutions, commercial banks and SFCs are by far the most important in financing the short and long-term needs of small industrial units. The record of commercial banks in particular has been good in this respect[1]. It would appear that there is no special need for creating new institutions specialising in credit to small scale industries. To meet the likely demand in full from

[1] For detailed figures of credit extended to small scale industries by commercial banks and other financial institutions, see Table 7·4 in Chapter 7.

the small scale industrial units, what is required is to increase the resources of existing institutions, improve their technical personnel and create conditions whereby the small scale industrial units can obtain loans from the organised banking system. The mere creation of a new financial institution will not solve these problems. As for the problem of providing technical assistance, guidance and information about the possible sources of credit to self-employed persons and small industrial units, we have already suggested the setting up of a multi-service agency in Chapter 7[1].

16.28 Sometimes the need for setting up a specialised financial institution for small scale industries is advocated on the ground that it would co-ordinate the activities of the large number of financial institutions already in this field. This argument does not hold good because the Industrial Finance Department of the Reserve Bank has already been watching the developments in this regard. Also, the Development Commissioner for Small Scale Industries co-ordinates the work of various directorates of State Industries Departments. In addition, if a specialised Small Industries Bank is set up, it would have to find sufficient resources to operate without depending on funds from the Reserve Bank or other existing institutions. Since its cost of borrowing will be at least as high as for other institutions, it may not be able to provide credit to small industries more cheaply than the existing institutions.

16.29 The Commission has also examined the suggestion of requiring one or more national banks to specialise in the financing of small scale sector on the basis of its/their organisational and other resources involvement in such credit. Judging by the yardstick of the proportion of an individual bank's advances to small industries sector to its total advances in March 1971, task of specialisation should go, in order of importance (ignoring for the moment the State Bank Group) to the Indian Overseas Bank, Bank of Maharashtra, Dena Bank, Syndicate Bank, Canara Bank, Indian Bank and Union Bank of India, followed by other banks. But the advances of none of these banks to the small industrial sector amounted even to 5 per cent of the total advances to this sector by all commercial banks. In this perspective none of these banks was specialising in credit to small industries. Also, these banks are concentrated in the States of Gujarat, Maharashtra, Mysore and Tamil Nadu. Their spread in other States is limited. The branches of the State Bank of India are widespread and its loans to the small scale sector formed 14 per cent of its total advances and about 40 per cent of the commercial bank advances to this sector in March 1971. Despite this considerable involvement in the financing of small scale industries, the State Bank has not remained merely a Small Industries Bank. Thus, specialisation by any bank in making credit to small scale industries does not appear to be practicable.[2]

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[1] See Chapter 7, paragraph 7·71.

[2] For the views of commercial banks on setting up specialised financial institutions, see paragraph 16·59 *et seq.*

16.30 Hence, the Commission is of the view that it is not necessary to set up a financial institution specialising in extending credit to small scale industries and small business units.[1]

Specialised Institutions for Consumer Credit

16.31 Consumer credit refers to short and intermediate credit involving relatively small amounts, granted to consumers for personal and consumption purposes or for repaying debts incurred for such purposes. It may also be given to meet emergency expenses like medical and educational bills. In the West, consumer credit is generally provided on an unsecured basis and is largely based upon calculations of the borrowers' character, integrity and net potential earning capacity. Consumer loans are not usually made for purchasing assets which give rise to flow of income. The need for setting up specialised institutions for consumer credit in India should be considered not only in the light of the present policy but should also take into account the requirement of the economy in the next 10-15 years.

16.32 In India the institutions that give consumer credit are money-lenders, indigenous bankers, commercial banks, employees' co-operative credit societies, urban co-operative banks, financial intermediaries (such as hire-purchase finance companies, chit funds,[2] loan and finance companies, and nidhis[2]) and dealers of durable goods. Employees of some public and private sector organisations can also borrow from their employers to satisfy their consumption needs. A few commercial banks have recently devised personal loan schemes to enable some of their borrowers to purchase consumer durables.[3]

16.33 The estimates of the Group showed that consumer credit in India did not form even 1 per cent of national income in 1968-69. This, coupled with the fact that moneylenders and indigenous bankers charge very high interest rates on consumption loans, indicates that there is a gap between the consumer credit requirements and the supply of such credit by organised credit institutions. Extension of consumer credit on a large scale under the present circumstances is likely to have an inflationary effect on the economy. However, with the likely increase in income in future and the creation of additional capacity in consumption goods industry, there is likely to emerge in the long run and increased demand for low income or middle income consumer durables, like bicycles, sewing machines and electric fans. Consequently, there will be need for an organisational innovation to satisfy the credit needs of consumers.

16.34 The kind of consumer credit for which arrangements may have to be made in the future is the one required for meeting medical, educational

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[1] Also see Chapter 7.
[2] This term is explained in Chapter 17.
[3] See Chapter 4, paragraph 4·6.

and other urgent expenses and the purchase of durable consumer goods. Arrangements for meeting medical, educational and other contingent expenses should be provided preferably by health and educational insurance schemes and other welfare schemes of the Government. The question is whether existing financial institutions can meet the demand for the remaining items of consumer credit. Commercial banks have large resources and a network of branches which should enable them to extend such credit. However, the demand on their resources from the competing sectors is likely to be so large that they would not find it easy to meet the entire or even a large part of the emerging demand for consumer credit. Hire-purchase finance companies will find it difficult even to meet the credit demand for automobiles and producers' durable goods. The facilities offered by the co-operative credit institutions are limited to their own members. Thus, a situation may emerge where the major institutions which are extending consumer credit at present may not find it possible to meet the increasing demand for consumer credit in future.

16.35 In the light of the above considerations, it will be desirable to encourage in future the formation of public limited companies for extending consumer credit. The new specialised institutions may be set up in the private or public sector. They may be encouraged to give not only consumer credit but also offer consumer consultancy services. In suitable cases, their loans may be covered by insurance schemes. From the point of view of regulation, it will be useful to bring them under the control of the Reserve Bank or any other agency which may be set up for the purpose. Commercial banks and other financial institutions like insurance companies, may also like to promote subsidiaries for extending such credit. The formation of such subsidiaries need not be discouraged. It will also be useful to have a uniform legislation for the country as a whole with allowances for regional characteristics in so far as the terms and conditions of consumer finance are concerned.

NEED FOR SPECIALISED SAVINGS BANKS

16.36 The need for specialised savings banks can be considered on the basis of the following criteria : (*a*) will the establishment of new specialised savings institutions increase the aggregate saving-income ratio, and (*b*) will they be able to bring into the organised financial system some savings which hitherto have been going to the unorganised sector ? The analysis will require an examination of the adequacy or otherwise of the existing financial institutions.

16.37 Available evidence indicates that although rural incomes have increased in recent years, the ratio of savings to income in the rural sector has almost remained stagnant, while the corresponding ratio for urban households has increased substantially. The proportion of rural savings to total

savings of the economy declined by nearly one-half from 29.3 per cent to 15.2 per cent in the period 1950-51 to 1962-63. The important point to be taken into account in this connection is that in the agricultural sector the process of saving and of investing is, to a large extent, carried out by the same individual or household without involving intermediation by financial institutions. There is scope for persuading the rural savers to keep their savings with banks pending their investment in physical assets. Hence there is *prima facie* a need for having institutional arrangements so that the rural savings can be mobilised. The question is whether the existing fiancial institutions are adequate for the purpose.

16.38 It may be noted that over the past four decades the number of broad types of financial institutions has hardly changed with the sole exception of the addition of the Unit Trust of India in the sixties.[1] However, the institutions have been extending their geographical coverage and have introduced a number of new saving schemes. This is specially true of the commercial banking system.[2] Also, contractual savings schemes like insurance and provident fund, have made notable progress. Non-banking companies have also been mobilising deposits.[3]

16.39 The Commission had elicited the views of commercial banks on the question of setting up specialised savings banks. In reply to the Commission's Questionnaire, a large majority of respondent banks thought that it was not necessary to have specialised savings banks along with the other institutions at present operating in the economy. The major reasons for this view were that, first, such savings banks will have to conduct only restricted business and would not be able to meet the entire banking needs of their customers and, secondly, commercial banks perform both savings and investment operations which should not be separated. Most of the respondent banks were of the view that they cannot set up specialised savings banks because it would involve high overhead costs without bringing any special advantages. They also felt that it was not useful for local authorities to set up savings banks as in Germany, because (*a*) local authorities would not have knowledge of general banking business as well as competent technical staff to man and manage such banks, (*b*) savings banks in Germany in the initial stages collected savings and did mortgage business, but now provide many of the services provided by ordinary commercial banks, which implies that there is scope in Germany for competition for mobilising savings deposits, and (*c*) depositors would be inconvenienced if they are required to go to specialised institutions for savings deposits and to commercial banks for current deposits as well as for other services.

16.40 An important lacuna in the organised banking system until recently was the urban bias of commercial banks. This, however, is fast

[1] See Table 13·4 of the *Report of the Group*.
[2] See Chapter 5 and Chapter 6, paragraph 6·33.
[3] See Chapter 6, paragraph 6·45 and Chapter 17, paragraph 17·5.

changing. This is shown by the fact that the percentage of commercial bank offices in rural areas (with population of below 10,000) increased from 9.2 at the end of 1952 to 35.5 at the end of May 1971. The Reserve Bank has been following a rural oriented branch licensing policy.[1] Under the Lead Bank scheme, the efforts of different financial institutions in a district are expected to be co-ordinated.[2] The Small Savings Movement of the Government is being intensified. The deposits of post office savings banks have also made notable progress.[3] The Commission has also recommended the establishment of rural banks[4] ; one of their main functions would be to mobilise deposits from rural areas.

16.41 In the light of the above developments which are taking place in the financial system of the country,there is little justification for establishing an entirely new organisation of specialised savings banks. This conclusion is based on the assumption that the major function of the institutions under examination would be only to mobilise savings. It is possible that there may be need for specialised institutions providing special kind of loan facilities like the provision of credit for housing construction.

Specialised Institutions for Housing Finance

16.42 The need for specialised housing finance institutions was examined by the Group in the light of the housing shortage in the economy, the scale of finance required and the existing institutions which extend credit to this sector.

16.43 In terms of social objectives, housing has been accorded a high priority. Apart from the fact that the acquisition of a house adds to an individual's welfare and is a highly coveted asset, the construction of houses helps a chain of ancillary industries and thus creates employment. Housing shortage in India has been estimated at about 83 million units in 1969. The scale of effort made so far has been at a low level. The estimated rate of housing construction in India is around 2 dwellings per 1,000 population per annum as against 10 per 1,000 population recommended by the U.N. The level of gross investment in dwellings is less than 2 per cent of Gross National Product as against 5 per cent in the developed countries. The proportion of investment in housing to total investments has steadily declined from 34 per cent in the First Five-Year Plan to 15 per cent in the Third and is proposed to be 12 per cent in the Fourth Plan. A relatively low priority given to investment in housing is a feature common to many developing countries. This is probably due to the fact that housing requires large capital resources and the capital-output ratio in this sector is relatively high. The strategy of development involved in this reasoning does not take into account the positive

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[1] See Chapter 5, paragraph 5·11.
[2] See Chapter 5, paragraph 5·24.
[3] See Chapter 6, paragraph 6·35.
[4] See Chapter 9

effect on labour productivity as a result of improvement in the housing situation and also employment generation in ancillary industries.

16.44 The scale of efforts required and the importance of finance for promoting housing can be gauged from the fact that on a conservative estimate, an investment of more than Rs. 30,000 crores will be required to wipe out the existing housing shortage ! This is more than the total investment of Rs. 22,635 crores proposed to be made in all sectors during the entire Fourth Plan period. It may be mentioned that the estimated magnitude of investment needed in the housing sector is based on 1969 prices and will have to be revised upwards if the increase in prices is taken into account. The importance of credit in this sector will be clear if it is realised that it is not possible for an individual to construct a house from his current savings. According to an estimate, even if an unskilled worker in India saved 10 per cent of his income, it would take him 49 years to finance the construction of his house with his own savings ! Thus, there is a large unsatisfied demand for housing credit. In view of the demands on available resources from competing sectors, it is also clear that additional savings would have to be mobilised to solve the housing finance problem. It is from this crucial point of view that the adequacy or otherwise of the existing institutions which extend housing finance should be judged.

16.45 The major institutions providing housing finance in India are Government agencies, Life Insurance Corporation of India (LIC), co-operatives, other lending institutions and the private sector.

16.46 The Government of India have introduced several housing schemes. These have undoubtedly social welfare objectives because they are meant for people belonging to the weaker sections of the community and specified categories of employees. In April 1970, the Government established a Housing and Urban Development Corporation which is expected to build up a revolving fund of Rs. 200 crores through Government allocations, mobilisation of private savings, assistance from other agencies and its operations. The intention is to utilise the fund to finance projects located in areas where there is a keen demand not only for houses but also for commercial or industrial sites so as to render the projects remunerative. The objects of the Corporation are to finance or undertake housing and urban development programmes in the country and also set up building materials industry.

16.47 Various State Governments have established Housing Boards which acquire land and construct houses. Their sources of finance are ordinarily the budgetary allocations by the State Governments although they also issue debentures on State Government guarantees.

16.48 LIC has emerged as one of the most important suppliers of long-term credit for housing in India. It makes loans to the Central Government

and to apex co-operative housing finance societies for housing purposes. It also extends loans under its own schemes to its policyholders. At the end of March 1971 the outstanding housing loans of LIC were about Rs. 235 crores and formed 14 per cent of its total investments in India.

16.49 Co-operatives represent an important segment of the organised sector providing housing finance. The major source of funds for the co-operatives is borrowing from the Government or other agencies (mainly LIC), which accounts for an overwhelming proportion of total funds.

16.50 Except the State Bank of India which is prohibited by its Act from extending housing credit to any one other than its own employees, commercial banks are not legally prevented from advancing housing loans. However, they have not so far entered the housing finance field to any appreciable extent. Recently, a few of them have introduced some housing finance schemes.[1] From the analysis of some of the schemes it appears that the repayment period required under the schemes is not long enough to suit the convenience of a prospective house owner belonging to the lower or middle income group and the schemes ordinarily require a borrower to bring in large funds of his own.[2]

16.51 Urban co-operative banks do not play a significant role in housing finance because they are reluctant to give long-term loans. Nidhis provide loans for housing construction but their operations are limited to certain localities and to their own members.[3]

16.52 Nearly 75 per cent of the total investment in housing in the 15 years of the first Three Plans was made by the private sector. The Builders Association of India in the course of its discussions with the Commission argued that finance from commercial banks for the construction industry was not adequate. They contended that they have generally to make their financial arrangements either with private sources or with indigenous bankers on a hundi basis and have to pay a very high rate of interest on such loans. The Association also argued that the amount of advance made by commercial banks against the same property is lower than that advanced by indigenous bankers because the former advance 70 per cent of the *document price* whereas the private agencies grant loans upto 70 per cent of the *actual worth* of the property. It may be stated that such financial facilities from the unorganised sector encourage irregular and illegal operations in the sale and purchase of land.

16.53 This brief description of the operations of financial institutions giving housing loans in India leaves the impression that there is no organised

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[1] See Chapter 6, paragraph 6·33.
[2] See Chapter 14, paragraph 14·27 of the *Report of the Group.*
[3] See Chapter 17, paragraph 17·59.

housing finance system serving the entire country and meeting the requirements of borrowers who want to own a house. Government schemes are social welfare schemes and are confined to a particular class of population and are financed from the budgetary resources. Co-operatives have certain advantages particularly because the beneficiaries of co-operative societies can make substantial savings in cost through group action. The movement has not, however, made much headway except in a few States and the sources of their funds are borrowings from the Government and other institutions. Also, co-operatives are reported to be suffering from many unhealthy practices. For instance, it is said that there are profit motivated promoters who buy land at low cost and after forming societies sell the same at exorbitant prices. Moreover, an individual who, for some reason or the other, cannot become a member of a co-operative housing society, is not in a position to obtain finance from co-operative institutions. Nidhis have confined their activities to a few localities. Commercial banks would probably not be able to undertake the huge task of housing finance in addition to the wide and expanding range of functions they are expected to perform. It is thus only the LIC which offers nation-wide urban mortgage loans on long maturities at reasonable rates of interest to its policyholders. However, the magnitude of its housing loans is subject to the total amount which it can devote for the purpose under its investment policy.

16.54 Thus, the most important lacuna in the existing state of affairs is that there are no country-wide institutions which combine regular saving schemes with provision of housing finance in adequate amounts and on reasonable terms. The desire to own a house is so strong that it can have a substantial impact on an individual's willingness to save and thus on the mobilisation of national savings. This has been the experience of many countries where linking of saving schemes with provision of housing finance is an essential feature of the housing finance system.[1] Other lacunae in the present system are that a housing mortgage market in India is not developed, nor are there any schemes to guarantee the repayment of loans. Lenders, therefore, may find that their housing loans are illiquid and may be reluctant to make such loans.

16.55 The basic requirements of an appropriate housing finance system should be the following: (*a*) Specialised institutions should be created, the main function of which should be to encourage savings and giving housing loans on reasonable terms. (*b*) Since conditions vary greatly from place to place, it would be desirable to have local institutions. It would be useful to knit these institutions into a system through a central institution which may help and supervise them. (*c*) There should be a machinery to offer suitable guarantee and insurance to cover the risks involved in providing housing finance. (*d*) Conditions should be created to develop a secondary mortgage market.

1 See Appendix VI of the *Report of the Group*.

16.56 Keeping the above requirements in mind, the Commission recommends that the following two-tier system should be created for housing finance in India. At the bottom, *i.e.*, district or regional level, there should be local housing finance institutions sponsored by the local community with the active encouragement of an apex central financing institution. Their primary function would be to attract savings linked to the provisions of credit for construction or purchase of houses. The object of the apex institution will be to encourage, supervise and provide temporary finance to the local or regional institutions. The Group was of the view that the existing Housing and Urban Development Corporation can perform the functions of the proposed central housing finance institution. The Commission considers that the apex institution should be a purely financial institution. The existing Housing and Urban Development Corporation is expected not only to finance housing but also to engage in building and in manufacturing building material. If this Corporation is to be given the task, it should shed all its non-financial functions and remain as a purely financing institution. Alternatively, the apex institution should be sponsored by the Reserve Bank. The Reserve Bank may consider creating a special housing fund to assist the proposed housing finance system. In order to cover the risks involved in providing housing finance, the LIC and general insurance institutions can devise a scheme to guarantee housing loans. Steps should also be taken to create and develop a secondary mortgage market and impart liquidity to housing loans.

16.57 Co-ordination may be ensured between the proposed institutions and the existing financial agencies in the following way: Wherever feasible, Housing Boards and Nidhis may be vested with the functions of the proposed housing finance institutions. Social housing schemes which involve an element of subsidy, may be continued. Co-operative housing societies should be strengthened particularly with a view to mobilising resources from members and eliminating malpractices. An apex co-operative financing society should be set up in each State refinancing the primary affiliated societies all over the State. However, as co-operative housing finance institutions give loans only to co-operative housing societies, the housing finance needs of individuals who, for some reason or the other, cannot join a society, are not met by them. Hence, the establishment of apex co-operative housing finance societies in each State will not be a substitute to the setting up of specialised housing finance institutions of the type recommended by us. Commercial banks may give short and medium-term credit to the builders in order to enable them to undertake mass housing construction programmes. Prospective purchasers of houses may borrow from the specialised institutions to purchase houses from the builders, who in turn, can repay their loans to commercial banks. To the extent administrative and personnel resources permit, commercial banks may also give credit to individuals desiring to own or construct houses. The apex co-operative societies as well as commercial banks extending housing loans should be able to obtain refinance from the proposed apex housing finance institutions.

16.58 The authorities will have to take active steps for the encouragement of the proposed system. It may also be pointed out that finance is only one of the inputs in the construction of houses. Housing finance schemes can be successful only if other steps are also taken, like ensuring the availability of land and building materials at reasonable prices.

Views of Commercial Banks on Setting up Specialised Financial Institutions

16.59 Having reviewed the need for specialised institutions for important sectors, the point of view of commercial banks on the question of specialisation in particular lines of business may be mentioned. In reply to the Commission's Questionnaire, a majority of commercial banks (83 per cent of the respondent banks) expressed the view that it was not desirable to encourage banks to specialise in fields such as agriculture, small scale industry or foreign trade. The main reasons adduced by them were: (*a*) If each bank specialises in one line, the customers may have to go from one bank to another for their borrowing needs. (*b*) In view of the vastness of the country, specialisation would mean opening of more offices, resulting in duplication and uneconomic operations. (*c*) Banks can open specialised cells for performing specialised functions. (*d*) Specialisation will reduce the profit earning capacity of banks because they would not be able to diversify their activities. (*e*) Specialisation in any one line of business by a bank to the exclusion of other banks may imply creation of a monopoly position with attendant disadvantages. (*f*) In the normal course of development of an institution, it will, depending on its area of operations, historical evolution and such factors as personalities of the executives, develop some degree of specialisation for financing a particular type of activity. (*g*) Specialisation is contrary to the concept of a bank as a development agency. (*h*) Small banks would not be in a position to specialise since they do not have resources or technical know-how for it. In response to the question whether it was feasible to set up specialised institutions either for direct financing or refinancing of small scale industries or exports, more than one-third of the respondent banks gave an affirmative answer. An analysis of the replies showed, however, that while some of them considered it feasible to set up specialised institutions, they were of the view that the tasks of financing small industries or exporters were being performed well by existing institutions. In other words, a large number of banks did not consider it desirable to set up institutions specialising in any particular activity.

Concluding Observations

16.60 On a detailed review of the need for specialised institutions in particular fields and taking into account the views expressed by commercial banks on the question, the Commission is of the view that with the limited financial and personnel resources in India, specialised institutions may be set up only if there is a clearly identified credit gap which, for some reason or the other, cannot be filled by the existing financial institutions. In other words, the creation of specialised financial institutions should depend on the merits of each case.

CHAPTER 17

NON-BANKING FINANCIAL INTERMEDIARIES

INTRODUCTORY

17.1 The Commission was required under one of its terms of reference "to review the role of various classes of non-banking financial intermediaries, to enquire into their structure and methods of operation and to recommend measures for their orderly growth". The phrase 'non-banking financial intermediaries' (NBFIs) covers a very wide field of institutions ranging from such highly specialised ones as development banks or insurance companies to fairly simple institutions like Mutual Savings Societies. Among the NBFIs working in the country, certain institutions such as development banks, insurance companies and statutory bodies like the Unit Trust of India (UTI) were not included by the Commission in its review because they work in a highly specialised field, their problems are somewhat different from those of other NBFIs and their working is constantly under review by various authorities. Trading and manufacturing concerns accepting deposits from the public for their own business, are not financial intermediaries in the accepted sense of the term ; hence we have not discussed them in this chapter. It was decided, therefore, to focus attention on the working of other important NBFIs in India, *viz.*, hire-purchase finance institutions, unit and investment trusts in the private sector, chit funds or kuris, loan and finance companies and nidhis. The Study Group on Non-Banking Financial Intermediaries (referred to as 'the Group' in this chapter) set up by the Commission was asked to study, among other things, the working of all these institutions and make suitable recommendations.[1] This chapter is largely based on the Report of the Group.

NBFIs AND BANKS

17.2 'NBFI' is a generic term in economic literature and refers to financial institutions whose liabilities are not accepted or used as means of payment (or money) in the settlement of debts. This definition, like most definitions, is not invariable and all-inclusive because the term 'means of payment' (or money) can itself be interpreted in various ways. The main difference between banks and NBFIs, both of which are financial intermediaries because they deal in financial claims, arises due to the differences in the

[1] See Appendix III for the composition and terms of reference of the Group.

nature of their liabilities. However, this criterion of distinguishing NBFIs from banks by itself is not adequate because all the liabilities of banks cannot be used as means of payment. The difficulty of distinguishing banks from NBFIs is illustrated by the fact that some of the NBFIs are referred to as 'near-banks'. There is thus an element of arbitrariness in the definition of NBFIs.[1] Still, as pointed out in the preceding paragraph the important NBFIs in India can be identified as hire-purchase finance institutions, investment companies, chit funds, loan and finance companies and nidhis.

17.3 The importance of financial intermediaries in the economy is derived from the conveniences which they provide for the savers and borrowers in their capacity as repositories of savings and as lending institutions. They play a significant role in the progress of the economy by influencing savings and investment. Both NBFIs and banks play this role. Hence the place of NBFIs in the economy really depends on whether as a class they are performing some functions which cannot be performed by banks efficiently.

PLACE OF NBFIs IN THE ECONOMY

17.4 There is a view that NBFIs in India do not have a useful part to play in the economy because commercial banks are the major repositories of savings and, with the extension of their geographical and functional coverage, are filling up all the credit gaps. It is also contended that since it is difficult to regulate a large number of NBFIs the effectiveness of monetary policy is diluted by their operations. These arguments are examined in the following paragraphs.

17.5 As regards mobilising savings, the relevant question is whether the deposits attracted by NBFIs are only transfers of savings from banks (including savings that would have gone to banks in the absence of NBFIs) or represent mobilisation of fresh resources. NBFIs generally do not accept demand deposits ; hence they compete with banks only in time deposits. Since these deposits are not liquid, the main factors involved from the point of view of a depositor would be the safety of and yield on such funds. As regards the safety of funds, the depositors of banks have a measure of protection due to deposit insurance and the banks being under the surveillance of the Reserve Bank of India which has an obligation to safeguard the depositors' interests. The bulk of the depositors, however, is not aware or sufficiently appreciative of these facts. Hence the major reason why NBFIs have been able to thrive in areas where banks are well represented is the differential in rates paid on deposits. It is reasonable to assume that at the margin there is a substitution of deposits from lower yielding to higher yielding categories even at the cost of incurring some risks. This differential in the rates

[1] The definition of 'banking' and the related problems are discussed in Chapter 19 and in the *Report of the Study Group Reviewing Legislation Affecting Banking.*

causes a transfer of deposits from banks to NBFIs or attracts funds which otherwise would have come to the banking system. Equally, it may well be that a part of funds of NBFIs consists of deposits which are transfers from currency holdings and to that extent represents the process of resource mobilisation by financial institutions. Thus, NBFIs can be regarded as being partly in the organised sector and partly in the twilight zone between the organised and unorganised sectors.

17.6 On the lending side, the clientele of commercial banks and NBFIs is different. While the major activity of banks has been lending to business, NBFIs have mostly concentrated on traditional individual lending, as in the case of chit funds or nidhis, or have been lending to individual business sectors, as in the case of hire-purchase finance companies. The loans of NBFIs are made for purposes like purchase and repairs of houses, acquiring durable consumer goods or just for plain consumption, whereas the overwhelming part of loans made by commercial banks is for industrial or commercial purposes. In this sense NBFIs fill up an important gap. It is not surprising, therefore, that the growth of banks and NBFIs in India has been parallel.

17.7 With the change in emphasis on lending in the organised banking system towards the neglected and weaker sections of the community, there may be a shift of clientele from NBFIs to banks. This would not, however, mean that there would be no scope for NBFIs because with the extensive credit requirements of the growing economy of the country with its vast size, there will be an area of credit beyond which banks would not be prepared or may not be able to go. While borrowers of greater creditworthiness could borrow from commercial banks, others would still go to the NBFIs. The existence of a very large number of moneylenders in the unorganised sector shows that in India there are many outside the circle of satisfied borrowers from the organised sector. It is also to be appreciated that many NBFIs are local institutions and have an intimate knowledge of local conditions which vary greatly in India. Hence they are in a position to offer financial instruments to suit the varying requirements of savers and borrowers which commercial banks may not find possible to offer. Thus, in spite of the spreading network of the commercial banking system and the extension of its activities, NBFIs will continue to find scope for their operations in the foreseeable future.

Need for Regulating NBFIs

17.8 The question whether the operations of NBFIs thwart the efforts of monetary authorities to make credit policy effective can be answered by examining the nature and the dimensions of the activities of these institutions. If the liabilities of NBFIs were good substitutes for 'money', they could induce a shift from idle money balances into these money substitutes and thus increase the flow of money expenditure in the economy. As noted earlier, generally the liabilities of these institutions are not convertible into cash on

demand ; hence they are not close substitutes for money. Therefore, the effectiveness of monetary policy would not be adversely affected on this account. It is possible, however, that the effective implementation of monetary policy may be adversely affected in other ways ; for instance, in addition to providing business credit in the speculative and other non-priority sectors, NBFIs may provide margin money in respect of advances where high margins have been prescribed as part of selective credit controls. Even in such cases, the tightening of monetary policy may itself lead to a rise in the lending rates of NBFIs. However, NBFIs can weaken monetary policy by competing with banks in their intermediary role if their activities are not effectively regulated, though currently in India the scale of their operations in relation to that of banks is small. For instance, at the end of March 1968, the deposits of NBFIs reporting acceptance of deposits to the Reserve Bank were less than 3 per cent of the deposits of commercial banks. Yet, in the absence of effective supervision, the operations of these institutions may grow in such a way as to weaken the effectiveness of monetary policy.

17.9 NBFIs should be regulated not only for monetary policy reasons but also to safeguard the interests of depositors. NBFIs are able to offer higher deposit rates than banks because except in the case of hire-purchase finance companies and housing finance companies, they are not subject to any liquidity requirements. Thus, the earning potential of banks which are subject to specified liquidity requirements is less than that of NBFIs. Also, NBFIs can recoup the high cost of deposits by charging high interest rates on their lending. This is possible because the clientele of these institutions was, at least until recently, neglected by commercial banks. Therefore, the high rates of lending of NBFIs are partly due to large unsatisfied demand for credit; the risk element is another factor which, in fact, is so great that it sometimes jeopardises the safety of depositors' interests.

17.10 The present regulation on the activities of non-banking financial and manufacturing and trading companies accepting deposits calls for disclosure of relevant information by a company, prescribes ceiling on the amount of deposits which a company may accept in terms of its paid-up capital and free reserves[1] and imposes restrictions on the acceptance of short-term deposits. Hire-purchase finance companies and housing finance companies which are free to accept deposits without limit are required to keep 10 per cent of their deposits invested in approved form as liquid assets. In the case of mutual benefit financial companies, including nidhis, which accept deposits from their own members but not from others, there are no restrictions on the acceptance of deposits from members or associate members. This regulation over NBFIs does not serve the purpose of safeguarding the depositors' interests because there is no effective supervision on the activities of these insti-

[1] For the definition of 'deposits' for purposes of regulation see Chapter 19, Paragraph 19·22.

tutions. In fact, the regulation may even have created the mistaken belief that the activities of such companies are under the official surveillance of the Reserve Bank.[1]

Basic Approach to Regulation

17.11 Once it is accepted that NBFIs are capable of playing a useful role in the economy, the purpose of regulating their activities should be :

(*a*) to safeguard the depositors' interests, and

(*b*) to create conditions for the growth of dynamic and forward looking NBFIs.

In any scheme of regulation, administrative difficulties of regulating a very large number of institutions should also be kept in mind.

17.12 Administrative difficulties of regulating a large number of NBFIs can partly be solved if these institutions can be given inducements to form themselves into corporate bodies. This will facilitate the regulation of their activities. For purposes of regulation, NBFIs may, in general, be classified into two categories—'approved' and 'non-approved'. While a specified minimum degree of control may be exercised on all NBFIs those units—to be designated 'approved' NBFIs—which satisfy certain additional requirements (*e.g.*, adequate amount of capital and reserves, a certain level of liquidity ratio, the quality of management, etc.) to be laid down by the regulating authority, may be accorded a special and favourable treatment. However, the basic factor to identify 'approved' institutions in each category will be the judgement of the regulating authority regarding the quality and scope of their operations. The Reserve Bank or any other regulating authority which may be set up in this behalf will have to strengthen and build up its inspecting machinery so that these institutions can be inspected at least on a sample basis. 'Approved' institutions which will be only corporate bodies should be eligible for refinance facilities from the banking system and their lending operations should also be covered under the Credit Guarantee Scheme. Eventually the deposit insurance scheme should also be extended to those of the 'approved' NBFIs whose manner of conducting business meets the requirements of the Deposit Insurance Corporation.

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[1] On September 22, 1971, Reserve Bank issued a press note, an extract from which is reproduced below :

"While the Reserve Bank's directions are intended to be of some help to the depositors by imposing on the companies a restriction on the total amount of deposits which they may accept and an obligation to disclose relevant facts about their financial position, they are no guarantee against the company (and its depositors) coming to grief through mismanagement or otherwise. Those who place their funds with a non-banking company either in the form of deposits or in the form of unsecured loans, which are not treated as deposits, should not, therefore, presume that the deposits or loans as the case may be are fully protected or are absolutely safe merely because the company claims to have complied with the Reserve Bank's directions ; nor should they be under the impression that they can look to the Reserve Bank for redress in the event of the company failing to meet its obligations in regard to the deposits."

17.13 While NBFIs are expected to play a useful role in the economy within the above general framework of regulation, there are significant differences in the working of different NBFIs. The details of regulation will have to be tailored to take into account such differences. In the following paragraphs we discuss the working of differnt types of NBFIs and suggest the measures necessary for their regulation.

Hire-purchase Finance Institutions

17.14 Hire-purchase form of credit is specially suited to borrowers like small transport operators, farmers and professionals needing equipment who find it difficult to offer security to the lending institutions. In this form of credit the goods themselves can serve as security because they remain the property of the lender until the loan has been fully repaid. In India, the bulk of hire-purchase credit goes to the road transport industry.[1]

17.15 There are three major types of institutions in the field of hire-purchase credit in India, *viz.*, private hire-purchase finance institutions, commercial banks and State Financial Corporations (SFCs). Commercial banks and SFCs have only recently entered this field. Outstanding advances of the national banks to small transport operators stood at Rs. 5 crores at the end of June 1969 and increased to Rs. 39 crores at the end of March 1971. The number of accounts in the same period rose nearly eight times from 2,527 to 19,860. SFCs in some States, particularly in Gujarat, Jammu and Kashmir, and Maharashtra have also been extending their operations in this field. According to the estimates made by the Group, even after taking into account the increasing interest shown in this form of credit by commercial banks and SFCs, there will still be a considerable gap between the supply of and demand for hire-purchase credit by the end of 1974. Thus, there will be scope both for the organised banking system and private hire-purchase finance institutions for entering the field of hire-purchase credit. This conclusion is strengthened by an examination of the characteristics of hire-purchase credit. A new entrant to road transport business usually starts with a second hand vehicle and later acquires a new one. Since commercial banks usually finance only new vehicles, there will be scope for private hire-purchase finance institutions also. The question, therefore, arises whether these private institutions will be able to meet the expected hire-purchase credit requirements of the economy.

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[1] Two Study Groups have recently gone into the different aspects of the problems of road transport finance: (1) *The Study Group on Road Transport Financing* appointed by Government of India, Ministry of Transport and Shipping (1968), and (2) *The Study Group on the Provision of Credit Facilities for Road Transport Operators*, appointed by the National Credit Council (1969).

17.16 In examining this question, the characteristics of private hire-purchase finance institutions in India may be noticed. First, hire-purchase finance institutions are better developed and organised in the Southern region than in other areas. Secondly, there is a large number of individuals and partnership firms in the field. Many of the undesirable practices in hire-purchase credit, like charging of exorbitant rates of interest and unreasonable, forcible repossession of the vehicles financed, are usually associated with the operations of small hire-purchase financiers. This is shown by the fact that interest rates charged by financiers are on an average lower in the Southern States where hire-purchase finance institutions are better organised than, for example, in the Eastern region where there is a large number of small units. Thirdly, there is the problem of shortage of resources for these institutions in relation to the demand for credit. Even in the case of larger hire-purchase finance companies, a major portion of funds consists of external borrowings. The scope for increasing the capital by issuing shares in the market is rather limited because the number of well managed companies is small. Hence, these institutions have necessarily to depend on bank loans and deposits from the public, although not all the companies accept deposits. It will thus be seen that the organisational structure of hire-purchase finance institutions in the private sector is not strong enough to take care of the likely demand of hire-purchase credit in future. The existence of a large number of small units is particularly a weak link in the chain. There is a clear need to institutionalise hire-purchase credit and encourage the formation and growth of strong and viable units. While the proposed Hire-Purchase Bill which is pending before the Rajya Sabha seeks to give protection to the hirer in a number of ways,[1] the policy objective relating to reorganisation of these institutions should be to increase the size of hire-purchase finance units and reduce their number. Apart from the fact that the bigger units will be financially viable and some of the unhealthy practices which are associated with the smallness of the size of the institutions will be remedied, it will be relatively easy to regulate a small number of large-sized units. It is with this object in view that the Commission makes the following recommendations.

17.17 All hire-purchase finance units should compulsorily be licensed and the licensing authority may be given the power to revoke the licence in case it is satisfied that the operations of a particular unit are unsatisfactory. It may be noted that the practice prevalent both in India and abroad is that a hire-purchase financier charges a flat rate of interest, *i.e.*, interest is charged on the entire amount of advance and not on the diminishing balances that remain due. Certain additional charges are also levied which are not always included in the flat rate. Thus the borrower does not always know the true rate of interest that he has to pay. The Commission, therefore, feels that

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1 Also see Paragraph 8·27 of Chapter 8 of the *Report of the Study Group Reviewing Legislation Affecting Banking*.

hire-purchase financiers should be required to indicate clearly the true rate of interest along with the flat rate.[1]

17.18 In view of the fact that the amount of borrowing is of crucial importance for hire-purchase finance units, the permissible equity-debt ratio and liquidity ratio should be so prescribed that they are higher for small units and lower for bigger units. This would be an inducement for smaller units to organise themselves into bigger ones. In order to encourage the creation and growth of hire-purchase finance companies in India, the benefit of the Credit Guarantee Scheme for small borrowers, which is at present available to scheduled commercial banks and SFCs should be extended to other institutions like non-scheduled commercial banks and urban co-operative banks as well as hire-purchase finance companies in appropriate cases.[2] Hire-purchase finance institutions should be classified into 'approved' and 'non-approved' categories on the same lines as discussed in paragraph 17.12 above.

17.19 So far as extension of hire-purchase credit by commercial banks is concerned it may be noted that in reply to the Commission's Questionnaire, some commercial banks pointed out that the major difficulties which they faced in extending credit to hire-purchase financiers were that they did not have first-hand knowledge of the integrity and creditworthiness of the hirer and that follow-up action was not always possible. A suggestion has been made that these and other difficulties can be solved if commercial banks are allowed to set up subsidiary hire-purchase companies. Commercial banks in India are already granting sizeable hire-purchase credit directly to transport operators. Hence, the Commission is of the view that it may be left to commercial banks themselves to decide whether they should enter hire-purchase credit business by having special departments for the purpose or by setting up subsidiaries. The Commission endorses the recommendation of the National Credit Council's Study Group[3] that it would be desirable for leading banks to form a few hire-purchase finance companies in participation and acting together particularly in the Eastern region where this form of credit is not institutionalised. This will require amendment of Section 19 of the Banking Regulation Act, 1949, so as to enable banks to promote sub-

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[1] It may be pointed out that the disclosure of the true rate of interest is regulated by law in some countries. For instance, the regulations under the Truth-in-Lending Act in the U.S.A. are designed to ensure full disclosure of the terms on which consumer credit is extended by banks and others. Creditors must state clearly two important features of the credit transactions. One is the 'finance charge' which includes all costs which are imposed on the consumer-borrower either directly or indirectly and the other is the 'annual percentage rate' which reflects the true percentage of cost of credit according to the actuarial or unpaid balance method. The Crowther Committee on Consumer Credit in the U.K. has also recommended that the Consumer Credit Commissioner be vested with powers to grant or revoke licence to institutions and that he should publish tables setting out true interest rates (*Report of the Committee on Consumer Credit*, HMSO, London, 1971).

[2] With effect from October 1, 1971, the Credit Guarantee Corporation has introduced a scheme under which the Corporation would guarantee the credit granted to service co-operatives by scheduled commercial banks and those State and central co-operative banks whose deposits are insured by the Deposit Insurance Corporation.

[3] See footnote to Paragraph 17·14.

sidiary hire-purchase finance companies.[1] It will also be useful for small local commercial and urban co-operative banks to take more interest in the field because by reason of their structure and intimate knowledge of local conditions, they are specially suited to extend hire-purchase credit which demands personalised service.

INVESTMENT COMPANIES AND UNIT TRUSTS

17.20. The main function of investment companies and unit trusts is to mobilise savings and invest them in industrial securities with the object of providing a good return to savers and to reduce the risk of losses by diversifying investments. The rationale of these intermediaries is that whereas the large saver is ordinarily able to combine the advantages of yield, safety and liquidity by making a judicious selection of investments and by spreading his risks over a number of securities, a small saver cannot do so. Investment companies and unit trusts with professional management and necessary expertise can collect the savings of small investors by offering them their own liabilities and invest such savings in well chosen securities. The major difference between an investment company and a unit trust is in respect of the method of issuing capital and redemption of shares. Investment companies, often called investment trusts or closed-end companies, have a fixed amount of authorised capital and a stated amount of issued capital like other joint stock companies. They mobilise savings by selling their shares and distribute the income which they earn on their investments by way of dividends. On the other hand, unit trusts—often called open-end investment companies, or mutual funds as they are designated in the U.S.A.—continuously offer their shares or units for sale to existing or new investors. Moreover, they are always ready to redeem or repurchase their own units at a price based on the actual market price of the underlying securities at a given time.

17.21 The importance of these institutions in the economy can be judged by the extent to which they are able to attract the savings of the community and promote the industrial growth of the country by making investments in industrial securities. The working and role of investment companies in India will be examined in the light of this criterion. As already pointed out, the working of the UTI has not been included by the Commission in its examination.

17.22 A special study[2] made for the Commission showed that if an investment company was defined as a public limited company which derived at least 75 per cent of its income from investments in securities, there were in 1968-69 only 56 such companies in India. An analysis of the working of these companies shows both their slow progress and relatively insignificant position in the Indian capital market. The total capital employed by these companies

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1 Also see Chapter 19.
2 See Appendix IV to the *Report of the Group*.

was Rs. 41 crores in 1956-57 and Rs. 46 crores in 1968-69. Their paid-up capital formed only 1.3 per cent of the paid-up capital of all non-Government public limited companies in India in 1968-69. The declining role of investment companies in the capital market is shown by the fact that whereas in 1956-57, among the institutional investors, they were the second largest in holding joint stock securities next only to the Life Insurance Corporation of India (LIC), by 1968-69 they were relegated to the fourth position.

17.23 The principal reason for their declining role in the capital market was the relative lack of resources which in turn can partly be explained by the fact that most of them do not perform the functions of investment companies in the sense of mobilising savings from a large number of small savers and investing them in a diversified manner. In fact, the outstanding feature of investment companies in India is that with a few exceptions, all of them are associated with and controlled by large business or industrial groups. This is shown by the fact that out of the 56 companies studied, as many as 38 had concentrated their investments in the companies of the industrial groups to which they belonged. Almost all the prominent industrial groups have their own investment companies. The reason for this 'group association' is partly historical. In the early stages of industrialisation, the initial finance required for the promotion of manufacturing companies was provided by business houses and managing agents through investment holding companies controlled by them. The promotion of additional companies within their respective groups was facilitated through investments made by such holding companies. The major objective of most of the companies, even to-day, continues to be to control, manage and assist companies within their particular groups.

17.24 In the light of the above analysis two questions are relevant: (*a*) does the Indian economy need more investment/unit trusts, and (*b*) what is the scope of the few companies in India which perform the genuine functions of an investment company?

17.25 The Group was of the opinion that there is no immediate or even a foreseeable need for having more unit or investment trusts in the economy. Its arguments were: first, the UTI has been able to create a financial asset which combines the advantages of liquidity, safety and return and is contemplating the introduction of new instruments with a different mix; secondly, in the present capital market conditions, even the existing institutional investors like the LIC and UTI, find it difficult to invest their available funds in good scrips. While it is true that at present the capital market in India is rather narrow, it is possible that in the light of large industrial investment postulated in the Five-Year Plans the market would in due course provide scope for more investment institutions. Also, with a large untapped section of savers and the expected increase in incomes, particularly in the rural areas, there is scope for introducing new types of financial instruments of savings. The Commission is, therefore, of the view that while in the immediate future there may

not be scope for setting up new unit trusts and investment companies, such institutions should be encouraged when demand and supply conditions in the capital market justify such steps.

17.26 As for the scope for the existing genuine investment companies, the Commission believes that given proper encouragement, they can play a useful role in the economy. Investment preferences in India are so varied that these institutions can create new financial assets to suit the requirements of various classes of savers in the economy. These investment companies are at a disadvantage as compared to the UTI in respect of their tax position. At present, the investee company pays corporate tax usually at 55 per cent. The dividend income of the investment company is taxed at the rate applicable to inter-corporate dividends. Finally, the dividends distributed by it are taxed in the hands of its shareholders at their personal income-tax rates. The only difference between the tax positions of investment companies and the UTI is that the latter does not have to pay the inter-corporate tax. So far as the shareholders of investment companies are concerned, they are on a par with unit holders in regard to the tax advantages after the tax concessions provided in the 1970-71 budget. The point, therefore, is whether genuine investment companies should be exempted from inter-corporate tax to bring them on a par with the UTI. The Commission is of the view that if these companies are prepared to have the same obligations as the UTI in respect of their investment and management policy, public participation and the distribution of dividend, Government should consider the question of exempting them from the inter-corporate tax. The criteria of a genuine investment company should be the following : (*a*) It should have an independent management and investment policy. (*b*) It should have a diversified investment portfolio both in terms of companies and groups of companies. (*c*) It should have adequate public participation in its share capital and it should ensure listing of its shares on the stock exchange. (*d*) A major portion of its funds should be invested in shares, stocks and bonds and other securities. (*e*) It should regularly distribute not less than a specified proportion of its net income to its members.

17.27 Although the number of genuine investment companies at present is small and hence no separate machinery is required to regulate them, it would be useful to pass legislation with the object of protecting the interests of the members of investment companies. The proposed legislation may be modelled on the lines of the Investment Companies Act of the U.S.A. and also incorporate provisions forbidding investment companies from doing certain types of business such as dealing in real estate. No industrial or trading company should be permitted in any event to hold shares in an investment company. In order to ensure an independent management and policy, Government should have powers to appoint a nominee on the board of directors of a genuine investment company in appropriate cases.

Chit Funds

17.28 The chit fund or kuri is perhaps the oldest of the indigenous financial institutions in India. The word 'chit', *i.e.*, a written note on a small piece of paper, suggests its origin. Basically, it involves regular periodical subscriptions by a group of persons and arrangements under which each member of the fund is entitled to the periodical collection. There are many variations of chit funds. Broadly, they can be classified into three categories, *viz.*, (*i*) Simple Chits, (*ii*) Prize Chits, and (*iii*) Business Chits.

17.29 In the 'Simple Chit', members agree to contribute to the fund a certain specified amount at regular intervals. Lots are drawn periodically and the member whose name appears on the winning chit gets the periodical collection without any deductions. He continues to pay his subscriptions but his name is removed from subsequent lots. Thus every member gets a chance to receive the whole amount of the chit. There is neither a professional promoter or manager nor is there any danger of loss of capital. This is a form of mutual co-operative effort for saving.

17.30 The 'Prize Chit' assumes various forms. The basic features are that the foreman or promoter who ostensibly charges no commission collects regular subscriptions from members. Periodically the names of members are put to draw and the lucky member gets a prize either in cash or in the form of jewellery or an article of utility. Once a person gets the 'prize' he does not have to pay further instalments and his name is dropped from further lots. The foreman promises to return the whole of the amount of the contribution made by a member at the end of a specified period in case he does not get a 'prize'. The former gets his income by using the amounts of subscriptions in his business. The success of his operation depends on continuous expansion in the number of members. The 'Prize Chit' which is really a form of lottery has become very popular recently in cities like Ahmedabad and Bombay. In Gujarat, the companies which transact this business are sometimes referred to as 'benefit companies'.

17.31 The basic features of 'Business Chit' are that the foreman enrols a number of subscribers who have to pay their subscriptions in regular instalments. The number of subscribers equals the number of instalments. The amount collected at each instalment—called the chit amount—is put to auction and the person who is prepared to forgo the highest amount of discount at auction is entitled to the chit amount. In case of two or more chit holders offering the same amount of discount or when there are no bidders, lots are drawn to choose the prize winning member. The foreman charges a commission for his service. The difference between the chit amount on the one hand and the discount offered and commission of the foreman on the other is called the 'prize'. Since the number of instalments equals the number of subscribers, every member is assured of an opportunity to get the prize.

The foreman reserves the right to take the entire chit amount at the first or second instalment. The amount of discount is distributed among the chit holders as dividend. Depending on the terms of agreement, a fixed amount is sometimes set aside for distribution among the 'non-prized members'. In some States a ceiling has been fixed on the discount that a member can offer. The prize winner can get the prize only on furnishing security acceptable to the foreman for the payment of the remaining instalments.

17.32 The above are the basic features of the business chit but there are any number of variations. It will be seen that no financial intermediation is involved in the 'simple chit', and the 'prize chit' is essentially a lottery scheme. The emphasis of analysis, is therefore, on the 'business chit' schemes.

17.33 The estimates of total turnover of chit fund business of chit fund companies in 1966, varied between Rs. 40 crores and Rs. 100 crores. According to one estimate, the current turnover is about Rs. 110 crores per year. A major portion of the total turnover of chit fund business is accounted for by companies in Kerala and Tamil Nadu. Companies in the South have spread their activities practically to all industrial cities like Ahmedabad, Bombay, Calcutta, Delhi, Jamshedpur and Surat.

17.34 The importance of chit fund as a financial intermediary can be judged from two points of view, *i.e.*, from the point of view of individuals who join chit funds and from the point of view of the effect of these institutions on the economy.

17.35 An individual who joins a chit fund does so either with the object of earning a return on his savings or getting a prize at the auction. The estimated return on the savings of a subscriber to a chit fund depends on a number of factors and assumptions. It depends, among other things, on the discount offered by subscribers, the commission of the foreman, the duration of the chit, the period for which the prize winner has to wait before he gets the prize, the interest that he may have earned on his savings elsewhere, and the return that he can obtain by investing his prize amount. Normally, in every chit a member has to pay the whole of the chit amount while he can expect to get a prize which is less than the chit amount at least by the foreman's commission. Only a few members may be able to derive more by way of prize than what they pay as subscriptions. In this category will be included those members who did not get a prize till the late stages and who got a share in the substantial discounts offered by prize winners. In no case can all members get more than what they contribute because unlike a commercial bank, a chit fund does not get any return on capital employed, from anybody except from the members of the chit fund.

17.36 The Group has given a number of examples in its Report to illustrate the profit or loss involved for subscribers. The essential point is that the

rate of interest involved in chit fund is discriminatory and varies from person to person so that there is an irrational distribution of gains and losses. Ordinarily, the more needy a person, the higher will be the discount that he would be prepared to offer for winning a prize.

17.37 There are alternative schemes introduced by various financial institutions, which are superior to chit fund scheme, *e.g.*, Recurring Deposits, Monthly Income Deposit Scheme, Insurance linked Deposit Scheme, Small Savings, Provident Fund, Insurance. Yet, the chit fund is showing signs of becoming more and more popular. The popularity of chit funds can be explained by the fact that the subscriber is entitled to borrow from it by offering discount at the auction. This is shown by the findings of the Survey of "Depositors' Appraisal of Banking Services" conducted for the Commission by the National Council of Applied Economic Research. The depositors of commercial banks who joined chit funds were asked as to why they joined chit funds. Most of them replied that they wanted to subscribe to a scheme where they could make regular savings or they did so in order to borrow for specific needs. Many depositors of commercial banks probably join chit funds because in a chitty[1] they can get the combined benefits of regular savings and borrowing for specific needs, although it may be noted that there is no assurance that the money will be available when needed since there may be other strong bidders and in case of a tie there will be a lottery. Another reason for the popularity of chit funds can be traced to long standing social habits and the gaming element in the scheme which perhaps provides an added attraction to some subscribers.

17.38 An examination of chit funds from the point of view of individual subscribers will not be complete without mentioning the role of the foreman of chit funds. The foreman decides, subject to law, almost everything about the chit—the number of members, the number of instalments, the chit amount, his own commission, the instalment at which he himself would retain the prize, the penalties to be imposed on defaulting members, etc. Some foremen derive their income not only in legal but also illegal ways. In the former category can be included items like their commission and the admission fees from members. The unscrupulous among the foremen resort to some unfair methods to secure illegal income. They can do this in a number of ways. For instance, since the subscribers do not form an organised body and are not usually able to attend the draw, a foreman is sometimes able to deny the prize to a legitimate prize winner and give it to one of his relatives or friends. Sometimes he delays the payment of the prize in order to earn interest on the chit amount. It has also been reported that some foremen use the institution to enable certain persons to convert the tax-evaded income into 'accounted money'. They can do this by so manoeuvring the result of the draw that a person with tax-evaded money is shown to get the prize. The person concerned pays premium to the foreman in return for the facility.

[1] 'Chitty' and 'chit fund' have been used interchangeably.

17.39 The examples of malpractices of chit funds illustrated in the preceding paragraph, give an idea of what risk a subscriber to a chit fund has to undertake[1]. In fact, there is a large number of cases where the foreman and his associates have disappeared after collecting large amounts.

17.40 It may be noted that the foreman has also to undertake certain responsibilities and risks. He is under obligation to pay the prize amount on the due date whether or not all the members have paid their subscriptions. In case of defaults he has often to make payment out of his own resources. The more organised is a chit fund the better is its ability to absorb such risks. There are some well organised chit funds with a large number of branches which have been conducting their business apparently to the satisfaction of their members.

17.41 So far as the effect of chit funds on the economy is concerned, it depends largely on the uses to which the savings involved in subscriptions to chit funds are put. No firm data are available to show the end-use of the prize amounts of chit funds and there are conflicting views on this point. According to a memorandum submitted to the Commission, 95 per cent of the big prize amounts (above Rs. 5,000) are either turned into investments in industries or agriculture or into trade and transport, while about 20 per cent of the medium prize amounts (between Rs. 1,000 and Rs. 5,000) and about 57 per cent of the small prize amounts (below Rs. 1,000) are spent on unproductive or consumption purposes[2]. Apparently, these figures are based on enquiries made from some foremen and a few prize winners. It would appear that the likelihood of productive use of the prize money is small. A prospective producer would not depend on the uncertainties involved in a chit fund. The rate of interest generally involved for a prize winner in a chit fund is so high that an inference can be drawn that the prize money is mostly used for consumption or speculative purposes. It is not unlikely that some persons join chit funds and are prepared to pay high rates of interest involved in large discounts for the purpose of hoarding scarce commodities.

17.42 It will be clear from the above that as savings institutions chit funds do not offer to all their savers schemes superior to those offered by commercial banks and other financial institutions. Nor does the chit fund *prima facie* extend credit to productive enterprises in the economy. Since chit funds are of indigenous origin and have shown increasing popularity, their removal without offering alternative schemes will, however, create a gap. The problem, therefore, is how to regulate them.

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1 See also paragraphs 6·14 — 6·17 of the *Report of the Group* and *Scheme for Starting Chitties under State Auspices*, Government of Kerala, 1967, pp. 17-18.

2 Appendix IX to the Memorandum, 'A Framework for an Optimum Credit Structure in India' submitted by P. R. Brahmananda to the Commission.

17.43 A few States have legislation on chit funds, the object of which is to safeguard the interests of the members[1]. The Commission feels that it is essential to have a uniform chit fund legislation applicable to the whole country. Depending upon the constitutional position, whether chit funds come under the Union list, Concurrent list or the State list, either an All-India Chit Fund Act may be enacted or a model law may be framed which may be adopted by all the States with such modifications as may be necessary. It will be desirable to provide in the legislation that only public limited companies can run chit funds. Pending such uniform legislation, existing State laws regulating chit funds registered within the State should be made applicable to their branches in the States having no legislation. This will essentially be an interim measure because only the members of those chit funds which are registered in States where chit fund laws have been enacted will get protection.

17.44 Appropriate legislative measures should also be taken with respect to 'Prize Chits'. The running of 'Prize Chit' amounts to the commission of an offence of running a lottery, under Section 294A of the Indian Penal Code. However, the police regard it as a 'civil' transaction and the offence remains a non-cognisable one. As it is, here is a field where the police remain passive and the Chit Fund legislations do not touch this field. The Chit Fund legislations evidently exclude this as what is prohibited by law cannot be regulated. As the law prohibits the running of 'Prize Chits', what could be considered is only the adequacy of the machinery for the effective enforcement of the legal bar against 'Prize Chits'. This is necessary in the interest of the public and in the interest of those who participate in the 'Prize Chit' schemes. As it is a matter of common knowledge that 'Prize Chits' are being conducted on a fairly large scale, the offence under Section 294A of the Indian Penal Code should be made a cognisable one. Also the Registrar of Chit Funds should be authorised to take note of any 'Prize Chit' that may be run and may either himself initiate action against those responsible or request the police to do so.

17.45 Apart from legislative measures, another way whereby discipline can be introduced in chit fund business is by encouraging commercial banks to undertake this business and offer effective competition to private chit funds. There is nothing under the Banking Regulation Act to prohibit banks from entering this business. Commercial banks can conduct chit funds as an agency business under Section 6(1)(*b*) of the Act. The number of banks running chits has, however, come down in recent years. Most of the banks which used to transact this business were the small unit banks in the South. With the process of merger starting in 1961-62 and the Reserve Bank taking a serious view of chit fund business of banks, only a few banks are now in the field.

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1 Chit fund legislation is at present operative in Andhra Pradesh, Kerala, and Tamil Nadu and the Union Territories of Delhi and Pondicherry. A bill has been introduced in Mysore. Certain other States are also considering the question of passing chit fund legislation.

17.46 There are two views on the desirability of banks conducting chit fund business. The main argument against banks entering this field is that chit fund transactions cannot be reconciled with the recognised principles and practices of commercial banking because there is a gaming element involved in such transactions. A banker accepts deposits and makes loans after he is satisfied about the creditworthiness of the borrower and the purpose of the loan. If the subscriptions to a chit fund are treated as deposits and the prize amounts distributed against security are regarded as loans, a banker is doing almost the same business as chit funds. The important point, however, is that the rates of interest involved both for savers and borrowers are discriminatory and the loan depends on the 'luck' of the borrower and the amount of interest that he is prepared to offer by way of discount. Also, ordinarily the purpose for which prize money is used is not ascertained.

17.47 There are also a number of points in favour of the view that banks should be encouraged to conduct chits. The most important is that banks can conduct them more efficiently than private foremen and can give effective competition to the latter and thus many of the abuses usually associated with chit funds would be reduced. Also, the business adds to the working funds of the foreman bank. Another important point which deserves emphasis is that chit funds run by commercial banks make the subscribers to the fund familiar with banking. In reply to the Questionnaire issued by the Commission, the banks carrying on chit fund business mentioned the following advantages of conducting chits : (*a*) bank can make profit without using its own funds, (*b*) small borrowers can obtain credit on easy terms, (*c*) conducting of chits by banks familiarises small income groups with them, (*d*) it helps banks in mobilising deposits, (*e*) chits are a form of compulsory savings and suit the requirements of many categories of savers, and (*f*) with their resources banks can run chits more efficiently[1].

17.48 The Commission is of the view that it will be useful for commercial banks to run chit funds subject to proper safeguards as formulated by the Reserve Bank. At the same time it should be emphasised that commercial banks should think of certain instruments of deposit and credit having features similar to those of chit funds but without the disadvantages inherent in them. One can, for instance, think of banks accepting recurring deposits from persons planning holidays or marriages, etc., and depending on the accounts and integrity of the depositors, granting overdrafts in deserving cases.

17.49 Yet another way of regulating chit funds would be to start them in the public sector. The Kerala Government has started a company—Kerala State Financial Enterprises Ltd.—which has been running chit funds in addition to performing other activities. One of the objectives of State Governments running chit funds would be to offer effective competition to private chit fund institutions and thus act as a disciplining factor. At the

[1] See Table 6·12 of the *Report of the Group.*

same time there will be heavy administrative burden involved in running chits at a large number of places. The State Governments may, wherever they think appropriate, consider starting chit funds at strategic places as model foremen.

17.50 To sum up, it is necessary that measures are taken to regulate chit funds although the ultimate objective should be to provide saving and lending schemes which can take the place of chit funds without the weaknesses and disadvantages associated with them.

Loan and Finance Companies/Corporations

17.51 A type of NBFI, variously styled as 'finance corporation', 'finance company', 'loan company', etc., has been making rapid progress in certain States like Gujarat and Mysore. There are some variations in its organisation and methods of operation but the major characteristics are that it attracts the savings of the people by offering high rates of interest or by distributing prizes in kind or in cash. The Group made a case study of 'finance corporations' which have made considerable progress recently in and around Bangalore.

17.52 Invariably, 'finance corporations' are partnership concerns with 10 partners or less who generally belong to a business community. The paid-up capital of these partnership firms is always less than Rs. 1 lakh. The major source of their funds is deposits from the public. It is estimated that their total deposits in Bangalore in 1970 were around Rs. 2 crores, varying from a few thousands in the case of one 'corporation' to more than Rs. 50 lakhs in another. Most of the deposits are fixed deposits ranging from 30 days to two years or more, although some 'corporations' also accept call deposits. The 'corporations' have been able to attract deposits mainly by offering very high rates of interest which vary from 4-6 per cent on short-term deposits to 13-14 per cent (or even higher) on fixed deposits for one year or more. Saving deposits fetch 7-8 per cent. In order to attract deposits, some of the 'finance corporations' have introduced interesting schemes like prize and gift schemes, recurring deposit scheme, linking of insurance with deposits and payment of additional interest to women, children and educational institutions.

17.53 The lending business of the 'corporations' consists of making loans to wholesale traders and retailers, small scale industries and employed persons. The bulk of the advances is made to traders like cloth merchants and *mandi* (*i.e.*, market) merchants dealing in foodgrains, oilseeds, etc. The borrowers of these 'corporations' are persons who are either refused loans by commercial banks or who are unwilling to approach commercial banks because they think that the procedures of commercial banks are cumbersome and time-consuming. At times, the 'corporations' advance money for financing the margins fixed under the selective credit controls and thus fill the gap between

the total requirements of the borrowers and the money advanced by their bankers. The loans are generally unsecured except in cases where the credit-worthiness of the parties is not known. Sometimes these 'corporations' also discount post-dated cheques and perform certain other functions like running chit funds, collecting dividends for their customers and purchasing and discounting hundis[1]. The interest rate charged on their advances is said to be 18 per cent per annum—the maximum permissible under the Mysore Money-lenders' Act for unsecured loans. There have been reports, however, that this is only the nominal or recorded rate and the actual rate is 24-36 per cent per annum.

17.54 These 'corporations' are in essence banks in the sense that they accept deposits from the public and carry on the business of lending. The deposits attracted by them are not, however, insured by the Deposit Insurance Corporation because they are not 'banking companies'. They do not maintain any specific minimum liquidity or cash ratios, nor do they maintain any particular ratio between their owned funds and deposits. The ratio between the paid-up capital and deposits is very low in the case of those 'corporations' which have attracted large deposits. The only apparent safeguard for the depositors is the financial standing of the partners of these 'corporations'. However, the financial standing of the partners cannot be considered to be a safeguard for the safety of depositors' money because, first, each of the partners has a business of his own and it is unlikely that he will have surplus cash and, secondly, it would be very difficult to assess the net assets of the partners. The nature of lending business of these 'finance corporations' is also relevant to the safety of deposits. The very fact that the 'corporations' are able to charge very high rates of interest on their advances shows that at least a part of their business is of a risky nature. Moreover, although the loans made are of short duration, renewal is quite frequent. There is no system of exchange of information between the 'corporations', and a borrower can borrow from a number of these institutions. The danger of overtrading is inherent in the system. It is thus possible to visualise a situation when the interests of the depositors would be seriously endangered.

17.55 It is also possible that some of their advances are going to hoarders of scarce commodities. It is also reported, though it is not possible to substantiate the point, that a part of the deposits of these 'corporations' may be coming from people who want to evade taxes.

17.56 The above description of the nature of business of 'finance corporations' makes it clear that their activities should be effectively regulated. At present, the 'corporations' which are registered under the Moneylenders Act, are required to observe a ceiling on the interest rates on their advances. They are not subject to any other meaningful regulations. Monetary authorities do not control their activities. It may be noted in this connection

[1] This term is explained in Chapter 18.

that it was as a result of an amendment to the Banking Laws (Miscellaneous Provisions) Bill, 1963 that partnership firms with a capital of more than Rs. 1 lakh were brought under regulation and those with a capital of less than Rs. 1 lakh continued to be excluded from the scope of the regulation. The reason for the exemption as explained in the Parliament, was that the small firms whose operations were on a small scale should not be brought within the purview of control in the beginning.[1] Although the total magnitude of their operations in the economy is not very large, the question of safeguarding the depositors' interests has assumed importance.

17.57 Since these are para-banking institutions, it is necessary to regulate their activities on the same lines as in the case of commercial banks. With the main object of safeguarding the interests of the depositors as well as taking into account the fact that the advantages which 'finance corporations' enjoy regarding local knowledge may be utilised to the country's benefit, the following recommendations are made : (*a*) No institution of the type described above may be allowed to work without a licence from the monetary authorities. (*b*) A ratio may be prescribed between the owned funds of an institution and its deposit liabilities. (*c*) Liquidity ratio may be prescribed for them which may, however, be lower than that in the case of commercial banks. (*d*) Periodical inspections of the 'corporations' may be undertaken ona sample basis by the regulating authority. (*e*) A ceiling on interest rates on deposits may be prescribed which may, however, be higher than that prescribed for commercial banks. (*f*) Since they are not bodies incorporated under the Indian Companies Act, they should not be allowed to use the word "corporation" in their names. (*g*) 'Finance corporations', loan companies, finance companies, etc., may be classified into 'approved' and 'non-approved' categories like other NBFIs. In terms of the scheme of classification of banking concerns as given in Chapter 19, these types of institutions will not be allowed to accept demand or near demand deposits.[2]

17.58 It may be added that rules and regulations alone may not offer a solution to the problem created by the operations of these kinds of institutions. It should be appreciated that the deposit and lending business of the 'corporations' is increasing because there is a demand for their services. The difference between interest rates offered by the 'corporations' and by commercial banks on one year deposits is almost 7-8 per cent. This is big enough to persuade the depositors, particularly those with fixed income, to put their savings with the 'corporations' even at a risk. The 'corporations' are able to offer high rates of interest because their activities are unregulated and they can charge very high rates to the borrowers who do not get loans from commercial banks. The solution to the problem, therefore, ultimately lies in commercial banks offering effective competition to the 'finance corporations' in their lending business.

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[1] *Lok Sabha Debates, December 16-21, 1963,* p. 5917.
[2] See Chapter 19, Paragraph 19·31.

NIDHIS

17.59 Nidhis, also known as mutual benefit funds or permanent funds, are peculiar to South India, particularly Tamil Nadu. These are companies registered under the Indian Companies Act and deal only with their members. In the majority of cases, the value of their share is only Re. 1 and hence almost anybody can become a member. The major source of their funds is the deposits (mostly in the form of recurring and fixed deposits) from their members. They make advances to their members at reasonable rates of interest usually for purposes like house construction or repairs, marriages, redemption of old debts, meeting medical expenses, etc. These are mostly secured loans, the security being house property, gold, jewellery, shares of companies, deposits of members, life insurance policies, etc. Often a borrower is asked to open a recurring deposit account earmarked for his specific mortgage loan. At the end of the period the loan is automatically discharged and the borrower gets back his property. The nidhis are somewhat like urban co-operative banks, the major difference being that in the case of the former, the amount of advance is not generally linked to the amount of shareholding.

17.60 According to an estimate, there were 150 nidhis with total deposits of Rs. 25 crores in 1968. Thus, their deposits were not even 1 per cent of the total deposits of commercial banks in that year. Judged in this perspective, nidhis cannot be said to occupy an important place in the economy of the country. However, they play a useful role in the localities where they operate and are specially helpful to the middle or lower income classes. The management is generally in the hands of experienced persons with good financial status and standing in the locality. There are some cases where the members of the boards of directors misused their powers but such cases are few. The recovery of loans is good with hardly any cases of default. The popularity of nidhis in certain localities can be attributed to their local character, easy approachability and the absence of cumbersome procedures.

17.61 It will be seen that as a financial institution, nidhis are unique in so far as they offer saving schemes linked with reasonable assurance to their depositors of the availability of credit on moderate terms. They have some features common to the Savings and Loan Associations of the U.S.A.[1] particularly because one of the important purposes of their loans is to enable a member to acquire a house. Their local character helps them to fill a credit gap as they can cater to the requirements of that section of the community which the commercial banks may not be able to approach in the near future. There is no gaming element as in the case of chit funds, and the charges of profiteering or malpractices have not been made against most of these institutions. It is thus obvious that these institutions deserve encouragement.

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[1] See Appendix VI of the *Report of the Group.*

17.62 In considering how nidhis can be made more useful functionaries in the economy, the following points may be borne in mind. First, although they deal only with their members the conditions of membership are so easy that any person can become a member. Since their major functions are mobilisation of deposits and making of advances they are really working like commercial banks. Yet, they are not subject to any of the regulations which are usually applied to banking companies. They have to submit regular returns to the Reserve Bank but their deposits are expressly excluded from the purview of the regulation of the Bank. It is true that most of the nidhis are managed with reasonable efficiency and integrity, but it will be useful to regulate their activities rather than take even a remote risk of endangering the depositors' interests. Secondly, the tax advantages available to the depositors of banks are not available to the depositors of nidhis. Thirdly, there are hardly any links between nidhis and the banking system. It is only rarely that they borrow from commercial banks which appear to serve as lenders of last resort rather than a regular channel of finance. The result is that nidhis suffer from shortage of resources and cannot meet the entire demand for loans from their members. If links could be forged between nidhis and the banking system, commercial banks can possibly utilise the services of nidhis for making small loans because the latter have an intimate knowledge of clients in the localities where they operate. The purpose of regulation should, therefore, be to safeguard the depositors' interests and make these institutions more dynamic and useful to the economy. It is with these objectives in view that the following recommendations are made.

17.63 In the case of nidhis which accept demand deposits, the regulation should be the same as that applicable to commercial banks[1]. All other nidhis should be subject to the undermentioned regulation :

(*a*) They may be licensed by the Reserve Bank or such other regulating authority as may be set up for the purpose. (*b*) A minimum level of liquidity ratio may be fixed which may, however, be lower than that of commercial banks. (*c*) A minimum amount for paid-up capital and reserves may be prescribed and every nidhi should allocate a certain specified proportion of its profits to reserves. (*d*) Periodical inspection may be conducted by the regulating authority. While these regulations may be made applicable to all the nidhis, incentives may be offered to those among them which satisfy certain requirements. For this purpose, nidhis may be classified, like other NBFIs, into two categories *viz.*, 'approved' and 'non-approved'. Besides according the advantages like the availability of refinance, guaranteeing of loans and insurance of deposits to approved nidhis, Government may also consider extending to the depositors of these nidhis the same tax concessions as are available to the depositors of banks.

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1 In terms of Banking Code suggested in Chapter 19, only banks will be allowed to accept demand or near demand deposits.

CONCLUDING OBSERVATIONS

17.64 The NBFIs are capable of playing an important and useful role in the economy by creating financial instruments to suit the wide and varied preferences of savers and borrowers in the economy. Many of them are of indigenous origin and as such are popular in the localities where they are operating. There are, however, certain weaknesses in their working which endanger the safety of funds of persons who keep their savings with them. No systematic attempt seems to have been made so far to encourage these financial institutions to play a more dynamic role in the economy. There is, therefore, need to regulate the activities of NBFIs with the objective of protecting the interests of savers, to ensure soundness of these institutions and to encourage them to enter the mainstream of the activities of the organised financial system. As the above review shows there are considerable differences in the working of different NBFIs and the extent and nature of regulation should be fashioned according to the characteristics of individual institutions. A large number of NBFIs in India are non-corporate bodies. From the point of view of regulating as well as strengthening them it would be desirable to encourage such institutions to incorporate their undertakings. The basic idea behind classifying NBFIs into 'approved' and 'non-approved' categories takes into account the above considerations. The Commission has not specified the details of the criteria to be adopted for 'approval' of an institution because this would ultimately depend on the judgement of the regulating authority regarding the way in which the operations of an institution are conducted. As explained in Chapter 19, the Commission has recommended a Banking Code to regulate all the deposit taking institutions. There are some NBFIs like investment companies not accepting deposits and chit funds, which will not be covered by that Code and special arrangements will have to be made for such institutions.

17.65 Finally, it may be pointed out that the available statistics in respect of NBFIs are inadequate. For any meaningful analysis of the operations of NBFIs and their regulation, it is essential that statistics relating to the different aspects of their working should be collected and processed in a systematic manner.

CHAPTER 18

INDIGENOUS BANKERS

INTRODUCTORY

18.1 We have examined in the preceding chapter the working of various types of non-banking financial intermediaries and made recommendations concerning them. One of the most interesting types of financial intermediaries in the Indian financial system, namely, the indigenous bankers, was, however, left out of this examination. This was done in view of the special position the indigenous bankers have occupied in the system. Also the wording of the term of reference of the Commission in relation to this type of institution is somewhat different from that for the other non-banking financial intermediaries. The Commission was required "to review the working of the various classes of indigenous banking agencies such as multanis and shroffs, evaluate their utility in the money market complex" and to make recommendations in the light of the findings. To study in depth the various issues in this term of reference, the Commission appointed a Study Group on Indigenous Bankers (referred to as "the Group" in this chapter), which was required to examine whether indigenous bankers can, in the course of time, usefully extend their activities to provide specialised services in the money and capital markets and to make recommendations on the nature of the link to be provided between indigenous bankers and the organised banking system and offer recommendations for improved regulation and control of the indigenous banking system.[1]

18.2 When the Indian Central Banking Enquiry Committee made a study of this problem, the Indian financial system was very different from the one existing today. It was estimated by the then Finance Member that the indigenous banking system accounted for more than 90 per cent of the credit.[2] The links between this system and the modern banking system were rudimentary and incomplete. It was felt that until this vast portion of India's banking and credit machinery represented by indigenous bankers was put into gear with the relatively small machinery of the modernised money market with the Reserve Bank as its central control, it would be impossible for the Reserve Bank to exercise full control of currency and credit. The solution to this problem was to be thought of not in terms of displacing the whole of

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1 For the composition and terms of reference of the Group, see Appendix III.

2 *History of the Reserve Bank of India—(1935-51)*, Reserve Bank of India, 1970, pp. 111-2.

this system throughout the country, but of making the fullest use of it by adapting its methods so that it fitted in with the modern banking system and the central bank.

18.3 The vast structural changes that have taken place in the Indian financial system since the Report of the Indian Central Banking Enquiry Committee have already been described in detail in the previous chapters. In spite of the growth of the organised financial system over this period and the consequent decline in the importance of the indigenous banking agencies, they continue to perform certain special functions. However, there is hardly any systematic information as to the magnitude of their operations or their methods of working. The indigenous bankers themselves have not made efforts to provide such information on their own. Also there have been very few worthwhile studies on this subject by independent scholars.

18.4 The first task before the Group was, therefore, to fill up the information gap. The Group too found it difficult to obtain precise quantitative information and had to rely on the memoranda submitted by the associations of indigenous bankers, on personal interviews, and on field inquiries supplemented by scrutiny of Government records. Information available from the records of commercial banks as also the analysis of the replies to the Commission's Questionnaire for commercial banks were made use of. Another source of information regarding the activities of indigenous bankers was the borrowers themselves; their reactions have been gauged from replies obtained to the Commission's surveys of small scale industries and small artisans. The information obtained by the Group, the main points of which have been given in the following paragraphs, and its recommendations have been considered by us in the light of the basic test of the utility of this type of financial intermediaries, *viz.*, whether in the overall context of the credit needs of the economy it helps to bridge an essential credit gap or not.

Historical Background

18.5 The system of indigenous banking, as is well known, dates back to ancient times. Until the middle of the 19th century the indigenous financial agencies were the hub of the Indian financial system providing credit not only to trade but also to the Governments of the day. The advent of the British had an adverse impact on the business of these agencies, not only because the monopoly position enjoyed by them for centuries was disturbed but also because there was a qualitative depreciation. The European bankers began to enjoy State patronage and prestige, and the indigenous banker was gradually elbowed out. He concerned himself with providing credit to the agriculturist and the artisans and with financing of internal trade, whereas the banks preoccupied themselves with the financing of external trade. So long as commercial banking was concentrated in metropolitan areas and important commercial centres, a very large proportion of the credit requirements of rural and

semi-urban areas continued to be met by the indigenous financial agencics including the moneylenders. With the progressive extension of commercial banking geographically and to the priority sectors and the growth of co-operative banking following the adoption of the integrated scheme of rural credit, the area of operations of these agencies has contracted further. At the same time changes in the strength and competition of demand for funds have led to new types of profitable lending. Thus, these agencies continue to play an important role in the unorganised financial system.

18.6 As early as 1931, the Indian Central Banking Enquiry Committee had underscored the need for integrating the two sectors of the Indian money market and had recommended the linking of indigenous bankers with the Reserve Bank of India when the latter was created. The Indian Central Banking Enquiry Committee, while noting a decline in the banking business of the indigenous bankers largely as a result of competition from commercial and co-operative banks, considered that their activities should not be allowed to languish and that steps should be taken to improve the position of the indigenous banker and to make him a useful member of the Indian banking system. It was suggested that as soon as the Reserve Bank was established the indigenous bankers should along with commercial and co-operative banks, be brought into direct relationship with the Reserve Bank of India and allowed to make use of rediscount facilities. The Committee made definite proposals for linking with the Reserve Bank of India such of the indigenous bankers as : (*a*) were engaged in banking proper or were prepared to shed their non-banking business, (*b*) had a minimum capital and reserve (no figure was stipulated), (*c*) kept accounts in the usual recognised manner and had them regularly audited, (*d*) did not charge unduly high rates of interest. Bankers satisfying the above conditions, it was urged, should be placed on the approved list of the Reserve Bank and given rediscount and remittance facilities.

18.7 Pursuant to the recommendations of the Indian Central Banking Enquiry Committee, the Reserve Bank of India drew up a scheme for the inclusion of indigenous bankers doing banking business under the Second Schedule to the Reserve Bank of India Act, 1934. Accordingly, the Reserve Bank in August 1937 formulated a draft scheme for direct linking of the indigenous bankers with the Reserve Bank along the lines recommended by the Indian Central Banking Enquiry Committee. The scheme was to be operated on an experimental basis to take within its ambit all bankers, exclusively concerned with banking proper and having a minimum working capital of Rs. 2 lakhs. Those fulfilling these conditions would be entitled to the privilege of rediscount facilities against eligible paper, the right of advances against Government paper and remittance facilities similar to those enjoyed by scheduled banks. They were, however, exempted from the obligation to maintain deposits with the Reserve Bank during the experimental stage. The precondition of the segregation of banking from non-banking activities led to a breaking off of the attempt at linking. Further, the indigenous

bankers who were by then receiving ample assistance from the Imperial Bank and other commercial banks were reluctant to adopt ways which might curtail their freedom of operation. They reacted unfavourably to the Reserve Bank's suggestion of giving publicity to their accounts and maintaining them in the approved form, and argued that facilities offered by the Reserve Bank of India were inadequate compensation for loss of their non-banking business.

18.8 The Reserve Bank realised the futility of attempting a direct link and the scheme embodied in its circular letter of August 1937 was shelved. In the opinion of the Reserve Bank, the ultimate solution lay in the development of a bill market in which trade bills of first class indigenous bankers could be discounted. Such an arrangement would possibly bring about the direct relationship which indigenous bankers desired without compelling them to make radical changes in the character of their business.

18.9 The next attempt at integration was made in 1941 at the instance of the Bombay Shroffs Association. This time the Reserve Bank agreed not to insist on immediate shedding of their non-banking business, but suggested in the first instance, its segregation from banking business and within a stipulated period the shroffs were to discard non-banking business altogether. Again, these conditions were unacceptable to the shroffs. In 1954, the Committee on Finance for the Private Sector[1] recommended that steps should be taken to encourage the rediscounting by the Reserve Bank of usance bills of indigenous bankers through the scheduled banks. The Reserve Bank of India felt that the extension of this facility to the multani hundis, although it might promote integration in the theoretical sense, would be without much practical significance. The purpose behind this recommendation was to provide banks which discount these hundis with additional funds. The Reserve Bank, therefore, felt that there was no justification in creating an elaborate machinery for rediscounting these hundis.

18.10 Thus even though the matter has been considered several times in the past, no headway could be made in view of the legal and practical difficulties in the way of integration. The result has been that one of the main recommendations of the Indian Central Banking Enquiry Committee, could not be implemented. In the meanwhile official thinking on this question has veered round to the approach that strengthening the co-operative movement and institutional spread of banking through branch expansion of commercial banks would be the most potent instrument for narrowing the area of influence and operation of indigenous financial agencies. As the banking system covers a greater area of economic activity, both territorially and functionally, the less efficient of the indigenous banking agencies would be slowly edged out of business. The more efficient among them would then

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[1] *Report of the Committee on Finance for the Private Sector*, Reserve Bank of India, April 1954, p. 69 paragraph 147.

have to accept some measure of regulation and control. However, there is still a large section of public opinion which feels that integration of these agencies into the money market complex is of paramount importance for ensuring effective monetary control.

Definition

18.11 A logical starting point for the examination of this whole matter is the definition of what constitutes an indigenous banker. Indigenous financial agencies comprise two broad categories, *viz.*, (1) moneylenders, and (2) indigenous bankers.

18.12 The terms of reference of the Commission require an evaluation of the utility of indigenous banking agencies. The scope of the inquiry has, therefore, been limited to the activities of the indigenous bankers, and the moneylenders are excluded. The moot question is: who is an indigenous banker, *i.e.*, which specific classes of people can be labelled as indigenous bankers? There is no legal definition of the term 'indigenous banker' as these bankers are not required to register themselves as 'indigenous bankers' under any law of the country. The problem is complicated because the term 'indigenous banker' has been used loosely to include both the moneylenders and the bankers.

18.13 For the purpose of dealing with the problem of the moneylender separately from that of the indigenous banker, the Indian Central Banking Enquiry Committee defined an indigenous banker as "any individual or private firm receiving deposits and dealing in hundis or lending money"; and under the class of moneylenders, it included "those whose primary business is not banking but moneylending".[1] In spite of these definitions, the Committee stated that in many provinces while there were moneylenders who received deposits, there were indigenous bankers who did not receive deposits, but were still regarded as indigenous bankers. Even among the various provincial banking enquiry committees, there was no uniformity of the definition.

18.14 Since the term of reference had directed the Group to make an evaluation of the indigenous banking agencies close to the money market, it restricted the scope of the enquiry to urban areas, (that is, to places with sizeable banking activity), and to indigenous financial groups which are close to or on the periphery of the organised money market. The primary distinction between the moneylender and the indigenous banker according to the Group is that while the former lends his own funds, the latter acts as a financial intermediary by accepting deposits or availing himself of bank credit; in other words, the indigenous banking system is regarded as a true financial

[1] *Report of the Indian Central Banking Enquiry Committee*, Vol. I Part I, Government of India, 1931, p. 73, Paragraph 107.

intermediary in the sense that its ability to purvey funds is largely dependent on the outside resources it is able to mobilise. Another distinguishing feature is that the transactions of the moneylender are conducted in cash while those of the indigenous banker are based on the dealings in short-term credit instruments for financing the production and distribution of goods and services. The definition of 'indigenous banker' adopted by the Group therefore covers 'those individuals and firms who accept deposits or rely on bank credit for the conduct of their business and are close to or on the periphery of the organised money market and are professional dealers in short-term credit instruments (hundis) for financing the production and distribution of goods and services.' This includes the following types of indigenous bankers, namely, Multanis, Gujarati shroffs, Nattukottai chettiars, Kallidaikurichy brahmins and the Marwari bankers of Assam known as "Kayas' (or 'Kaiyas').[1]

Number and Distribution of Indigenous Bankers

18.15 There is no reliable source which gives an all-India figure of the number of indigenous bankers. The All-India 1961 Census places the number of moneylenders including indigenous bankers at 33,939. As for indigenous bankers, their number has been estimated by the Group to be in the neighbourhood of 2,500 in the following manner. With the exception of the Assam 'Kayas' numbering about 400, there are around 400 Multani shroffs, 350 Gujarati shroffs, and 50 chettiar firms, most of whom are members of their respective associations. Membership records show a figure of around 1,200. From informal sources, it was understood that it would not be unreasonable to assume that there are as many non-members as there are members engaged in this business. On this reckoning, the total number of indigenous bankers has been estimated to be in the region of 2,000 to 2,500.

18.16 By and large, indigenous bankers are urban-based and have not penetrated into the rural areas. While some have been prominent in areas where the growth of commercial banking has been slow (for example, in Assam), a much larger number of them have been active in areas where development of commercial banking has been rapid. For instance, the multani bankers have concentrated their activities in the metropolitan areas of Bombay and Madras while the Gujarati shroffs have been active in the industrial and trading centres of Gujarat and Maharashtra. Indigenous bankers are also prominent in parts of South India, *viz.*, Andhra Pradesh, Kerala and Tamil Nadu. It is interesting to note that the indigenous bankers have been active in these areas despite the fact that these areas are relatively well provided with banking facilities. Thus, the geographical distribution of indigenous bankers shows that except for some scattered private bankers, indigenous banking agencies have not taken root in the North, and the entire concentration has been in the West and the South.

[1] These terms are used in this chapter solely with the purpose of distinguishing classes of indigenous bankers engaged in different types of operations.

18.17 The indigenous banking profession is looked upon as hereditary and it is also, by and large, confined to a few castes and communities, such as the multanis, the shroffs and marwaris in Western, Central and Northern India and the Sindhi multanis, the Nattukottai chettiars and the brahmins of Kallidaikurichy in South India. However, many writers deny them the appellation of bankers and classify them as moneylenders. By the Group's definition, they are bankers, inasmuch as they are financial intermediaries who deal in short-term credit instruments, *viz.*, hundis, undertake remittance of funds, and in some cases, accept valuables for safe custody, although some of them do not perform the other rather important function of a modern commercial banker, *viz.*, the receiving of deposits against which cheques can be drawn.[1] Quite a number of indigenous bankers combine banking with trade or banking with commission agency business or with hire-purchase financing. Among the shroffs of Bombay and among chettiars and marwari kayas, very few are engaged in pure banking. The combination of other business with banking is found among most of these groups, but the nature of such business varies with different classes of bankers. For instance, Gujarati shroffs of Bombay besides being bankers are traders and commission agents, purchasing and selling goods on their own and on their customers' accounts.

18.18 The normal business of the indigenous bankers is to finance inland trade including the movement of agricultural commodities such as cotton, oilseeds and sugar. The clients of indigenous bankers are mostly non-agriculturists. They also give loans to artisans and small urban traders either against security or on personal security.

18.19 In the urban areas, particularly in the metropolitan cities of Bombay and Madras, the services of the indigenous bankers are widely used. This is because commercial banks' lending to retail trade has been a very small proportion of their total credit disbursements. This section of the community has, therefore, had to rely on indigenous bankers to meet its credit requirements. Even where regular bank facilities or special small industry financing programmes are effective alternatives, it appears that some small industrialists prefer the lending methods of indigenous bankers to those of banks and Government agencies. Indigenous bankers give prompt, flexible, informal and personalised service. Collateral is often left in the possession of borrowers so that its productive use is not impeded. Although rates of interest are high in relation to those charged by banks, the loan is otherwise tailored to meet the individual borrower's needs. Also, funds are often provided on a risk basis and risk financing is often what the small man needs.

18.20 The absence of formality and delay in conducting business, the easy accessibility and the special facilities the indigenous banker offers to his

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[1] In Chapter 19 on 'Banking Regulation', the question whether all the categories of indigenous bankers could be regarded as doing the business of banking is considered. It is indicated there that only those indigenous bankers who accept deposits from the public could be regarded as doing the business of banking.

customers, have made the indigenous banker's services much sought after. His flexible lending policy comes from his close personal knowledge of his clients, giving him an edge over his institutional counterparts with their more formal methods of working. Besides, transactions financed by indigenous bankers are less subject to standardising influence of laws, since they are usually small and numerous, informal and unpublicised.

Organisation and Functions of Different Classes of Indigenous Bankers

Shikarpuri or Multani Shroffs

18.21 Multani shroffs constitute a compact segment of indigenous bankers and amongst these bankers they are the closest to the organised money market complex. Forty years ago this class of bankers was of minor importance but after partition their number has grown. Today there are as many as 253 firms operating in Bombay and on an all-India basis there are about 400 firms.

18.22 Flexibility of operations and quick availability are the main attractions of multani finance. Small and medium business units are often in urgent need of some clean loans for their marginal requirements and the multani banker is a convenient source of supply for their short-term requirements.

18.23 The multani hundi business is entirely unsecured being based on the personal assessment by the multani of the creditworthiness of the borrower. The business depends solely on the stipulation that borrowers honour hundis on due dates. The scrupulous manner in which the hundis are retired on due dates is a special feature of this business. In the event of any drawer of a hundi which has been discounted with a bank defaulting, the endorser, that is the multani banker would promptly make the payment to the bank. In essence the multani acts as the acceptor of the bill.

18.24 Since the hundi is a 90 days' instrument and the sanctity of the due date is observed, it provides a profitable short-term liquid form of investment to the banks. In fact, the banks' other unsecured advances do not afford the same degree of liquidity, for bad debts in the case of commercial banks' holdings of multani business are practically non-existent. Furthermore the multanis have developed a system of sharing risks in that if borrower's requirements are large, then several multanis collectively finance his credit requirements. Thus the multani banker's risk on any single borrower is limited to an amount between Rs. 2,500 and Rs. 10,000.

18.25 According to the data supplied by the associations of multani shroffs, traders and small industrialists form a large proportion of the total number of their borrowers and also account for a considerable proportion of the total amount of their advances. Agriculture and agro-based industries,

transport operators and exporters account for a relatively smaller proportion of their advances. However, since there is no post-allocation supervision to see that the funds provided have been utilised for productive purposes or otherwise, there is the danger in such financing of leakage of funds for unproductive purposes—hoarding or speculative activity.

18.26 According to the data collected by the Group, the owned capital of 319 multani firms reporting as at the end of 1969 aggregated Rs. 16.4 crores. The other source of funds is deposits. Friends and relatives are the most important segment of this source of funds. Interest on these deposits is currently paid at the rate of 6 to 10 per cent. Deposits of these 319 firms, which at the end of 1969 amounted to Rs. 3.73 crores, form a small proportion of the total capital employed. Multani bankers can provide to private parties the facility of investment in short-term bills by selling to the latter bills held by the former in their portfolios. This business is known as 'purja' business. In 1954, when the purja business was at its height, funds amounting to Rs. 10 crores were involved in it but since 1964 the sale of purjas has been discontinued because the sale of purja facilitated the malpractice of the havala[1] transactions.

18.27 Multani shroffs, however, derive a major part of their funds from commercial banks and the volume of their business is conditioned to a large extent by the volume of bank accommodation. On an average, the total limits sanctioned by the commercial banks to multani shroffs have been in the region of Rs. 35 crores to Rs. 40 crores. The average rate of utilisation of commercial bank-funds ranged from 40 to 50 per cent, that is approximately half or little under half the limits sanctioned are utilised. According to the Group, the low level of utilisation could be on account of the fact that availability of banks' funds is not assured and banks have been known to cut back their limits or withdraw from the market suddenly. On the basis of the data relating to 'hundis on hand', the Group has given the possible reasons for the rather high ratio of 'hundis on hand' to 'hundis with banks'; but in the absence of adequate data, it has been difficult for the Group to pinpoint the factors instrumental for the large volume of 'hundis on hand' and the low rate of utilisation of bank funds.

18.28 With owned funds amounting to Rs. 16.4 crores and deposits totalling Rs. 3.7 crores, the total capital of the 319 multani firms worked out to Rs. 20 crores. Allowing for 5 per cent of this as investment in unproductive assets,[2] roughly Rs. 19 crores were invested in the hundi business. Out of

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[1] The *modus operandi* of the 'havala' transactions was the following: In case a party having unaccounted money wanted to utilise the same, he would approach a 'havala' banker, sign a hundi and at the same time get a discharge at the back of the hundi as a receipt for payment and would keep the hundi in his own possession. In reality, the 'havala' banker did not give him any money but merely passed an entry to that effect in his books. For this bogus entry he was paid a nominal interest.

[2] This estimate is based on the information supplied by the Shikarpuri Shroffs Association.

estimated limits of Rs. 40 crores, outstandings from banks could be taken at Rs. 20 crores to Rs. 22 crores. Thus, the total capital employed in the hundi business by these firms was around Rs. 40-41 crores which the Group regarded as the normal volume of funds employed in this business. Since the hundi is a three months paper, the annual turnover on this basis would be Rs. 160 crores.[1] However, there are times when sudden withdrawal of discount facilities by commercial banks results in a sharp drop in the volume of this business. In fact, irregular flow of commercial bank assistance to this sector has been cited by the multanis as having actcd as a brake on the effective utilisation of bank funds.

Gujarati Shroffs

18.29 The Gujarati shroffs constitute another ancient class of indigenous bankers. The more organised amongst them are the shroffs of Ahmedabad and Bombay numbering 350 firms. Some of their 'pedhis' (*i.e.*, firms) are nearly 150 to 200 years old.

18.30 The Gujarati shroffs perform functions in many ways analogous to a modern bank. For instance, (*a*) they receive deposits on current and fixed accounts from the public, (*b*) they advance money on call and for fixed periods on security or on personal credit, and (*c*) they arrange for remittance of funds by issuing hundis for private and trade purposes and also undertake the collection of hundis. However, unlike a modern bank, they also act as commission agents in respect of commodities such as grains, cotton, oil-seeds, piecegoods, bullion, iron and steel and in some cases do the financing as well.

18.31 The Gujarati shroffs can be classified into two broad categories, *viz.*, (*a*) those who perform purely banking business, and (*b*) those who combine banking with commission agency business.

18.32 The first category of shroffs accepts deposits and makes clean advances as also advances against security. These shroffs issue hundis to parties against payment in cash or on clean credit and thus help to transfer funds from one centre to another for deposits and for payment of goods. They generally provide their customers with funds for purchase of goods through sight hundis drawn on their firms or other shroffs at other centres. Under advice of their clients, they also honour hundis drawn on them by third parties for the goods supplied to the former. By such short-term credit facilities they help in the marketing and movement of goods. The shroffs of Ahmedabad numbering about 150 firms, who do not mix banking with commission agency business, belong to this category.

18.33 In contrast, most of the 200 firms of Gujarati shroffs operating in Bombay combine banking and commission agency business. In fact, in

[1] See Chapter IV of the *Report of the Group*.

their case commission agency business is predominant, hundi business occupying a secondary position. Moreover, the banking business of these agencies has gradually declined with the growth of commercial banks. With the expansion in trade and industry, the returns from commission agency work are higher than from banking business. This is the main reason why the Gujarati banker merchants have resisted attempts to segregate banking from the non-banking business as both are interconnected and it is more economical, according to them, to operate both types of business together.

18.34 The form of organisation is mainly partnership with the big shroffs having branches in mofussil centres. The number of branches varies according to the quantum of business but the maximum even in the case of a large firm would not exceed 30 to 35 branches. However, besides these branches, shroffs have arrangements of 'mutual' accommodation for acceptance and payment of hundis at various places both within and outside the State boundaries. The branch system and the existence of reciprocal accommodation arrangements enable the shroffs to conduct commission agency work and exchange operations, raise and lend funds in the most profitable manner and direct surplus funds to those places where they are needed. The shroffs discount and accept hundis or bills for collection and issue hundis or drafts for purposes of private or trade remittances. In view of the delays in remittances through banks, the 'darshani' hundi (*i.e.*, indigenous sight bill) has proved to be a convenient instrument for remittance of funds by certain sections of the community.

18.35 The number of accounts with shroffs in towns and cities vary from 50 in the case of a small shroff to around 3,000 in the case of the bigger shroffs. In the case of some prominent shroffs, the annual turnover of their hundi business has been placed at Rs. 125 crores to Rs. 150 crores[1]. The capital structure of the Gujarati shroffs' business consists of their own funds, deposits from the public and inter-firm borrowings. Borrowings from commercial banks play hardly any part in the financial operations of the Gujarati shroffs. One of the distinguishing features between the multanis and the Gujarati shroffs is that the former rely heavily on bank finance for the conduct of their business while the latter besides their own resources which are enlarged by deposits from the public can borrow in their own call deposit market.

18.36 According to the data furnished by the Gujarati Shroffs' Association, the owned capital of 350 Gujarati firms has been estimated at around Rs. 15 crores as against Rs. 16.4 crores of the multani shroffs. Of this, 200 firms located in Bombay accounted for Rs. 10 crores and 150 firms in Ahmedabad accounted for the balance of Rs. 5 crores (Table 18.1).

18.37 Deposits form the most important source of external finance for the Gujarati shroffs who actively canvass for the same. The average de-

[1] Based on the memorandum submitted by the Bombay Shroffs' Association to the Group.

TABLE 18·1—OWNED CAPITAL, DEPOSITS AND ADVANCES RELATING TO 350 GUJARATI SHROFF FIRMS

Centres	Owned Capital		Deposits		Total Resources		Advances	
	Total (Rs. Crores)	Average per firm (Rs. lakhs)	Total (Rs. Crores)	Average per firm (Rs. lakhs)	Total (Rs. Crores)	Average per firm (Rs. lakhs)	Total (Rs. Crores)	Average per firm (Rs. lakhs)
Ahmedabad (in respect of 150 firms)	5·10	3·40	11·00	7·33	16·10	10·73	14·00	9·33
Bombay (200 firms)	10·00	5·00	15·00	7·50	25·00	12·50	22·00	11·00
	15·10		**26·00**		**41·10**		**36·00**	

Source : Gujarati Shroffs' Association.

posits per firm work out to Rs. 7.50 lakhs in the case of shroffs in Bombay and Rs. 7.33 lakhs in the case of shroffs in Ahmedabad, in contrast to the Multani shroffs whose average deposits (which are mostly from friends and relatives) per firm worked out to Rs. 1.16 lakhs. The average ratio of deposits to owned funds is 2:1 but in some cases it may be 5:1 or even higher at 10:1. In fact, a couple of firms are reported to have deposits in the region of Rs. 1-1.5 crores, which are more than those of some of the non-scheduled banks. In terms of the definition of banking suggested by us in Chapter 19, Gujarati shroffs certainly do banking whereas the multani shroffs who do not accept deposits from the public do not.

18.38 Deposits held with the Gujarati shroffs are withdrawable on demand—in essence they are demand deposits on which interest is paid at the rate of 6 to 9 per cent. The interest allowed varies according to the quantum of the deposit, the period for which the deposit is likely to be kept and the standing of the depositor. In any case the rates offered by the Gujarati shroffs are distinctly attractive in relation to what commercial banks allow on deposits kept with them or the interest offered on postal savings deposits. For instance, on current deposits, unlike commercial banks who pay no interest, the Gujarati shroffs allow interest at 4 to 6 per cent. The difference between current account and other demand deposits is that the former is operated like a current account with a bank whereas the latter, although repayable on demand, partakes the nature of savings or fixed accounts. In addition to deposits withdrawable on demand, the Gujarati shroffs also accept term deposits on which interest is paid at the rate of 10 to 11 per cent per annum. Another distinctive feature of the Gujarati shroffs is that, similar to the inter-bank call money market, there is an indigenous call market of the shroffs for short-term funds, in which excess funds are lent and borrowed. In the absence of discounting facilities with commercial banks, the inter-firm borrowings of the Gujarati shroffs provide the liquidity needed by the lenders while satisfying the short-term requirements of the borrowers. Large sums are obtained in this market by the shroffs on a short-term basis.

18.39 Of the 200 Gujarati shroffs operating in Bombay, hardly 10 shroffs do pure banking, and the rest combine banking with commission agency work. They purchase goods on behalf of their upcountry clients and send them on credit. They give revolving credit facilities to their customers. Interest charges for goods sent on credit are understood to be 12 per cent per annum. A commission charge of $\frac{1}{2}$ per cent to $\frac{3}{4}$ per cent of the value of the goods supplied is also levied in addition to freight and handling charges. Most of the advances are for the distribution and movement of goods.

18.40 The advances business of the Ahmedabad shroffs has been estimated at Rs. 14 crores. The annual turnover of the hundi business[1] of the Ahmedabad shroffs has been estimated at Rs. 300 crores while the annual turnover of the Gujarati shroffs operating in Bombay has been estimated at around Rs. 600 crores.

18.41 In recent years with the decline in the darshani hundi business, some of the leading firms of Gujarati shroffs have, on an experimental basis, formed themselves into groups of partnership firms for financing retail trade, and small scale industry against usance hundis. In Bombay there are six such finance bodies styled 'Corporations' which work on lines similar to the multani hundi business.

Nattukottai Chettiars and Kallidaikurichy Brahmins of the South

18.42 These two banking communities of the South were regarded in the past as the best organised of all indigenous bankers. The Nattukottai Chettiars used to do business all over the Tamil Nadu districts of Madurai, Ramnad, Thanjavur and Tiruchirapalli in South India. At one time, they had extensive banking business not only in India, but also in Burma, the Strait Settlements, Ceylon and French Indo-China. The Kallidaikurichy brahmin bankers operated mostly in the Tirunelveli district.

18.43 Besides moneylending, the issue and discount of hundis was the most important business of these bankers; in addition, they accepted deposits, both current and fixed, honoured cheques and accepted documents and valuables for safe custody and made advances against gold and ornaments. In short, each firm operated as a small bank.

18.44 Different estimates have been given regarding the capital resources of the Chettiar community. The Madras Provincial Banking Enquiry Committee had given an estimate of Rs. 75 crores as the working capital of the Chettiars based on the oral evidence of a leading chettiar banker. Of this, Rs. 58 crores were owned funds and Rs. 17 crores represented borrowings. According to another chettiar banker, it was Rs. 95 crores to Rs. 105 crores.

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[1] Turnover represents the sum of payments made against hundis and the payments received by hundis. See Chapter II of the *Report of the Group*.

According to the Income-tax department it was Rs. 36 crores. According to the income-tax records, capital invested by 243 chettiar firms was in the neighbourhood of Rs. 11 crores, Rs. 6.5 crores represented own resources and Rs. 4.5 crores borrowed funds. There is no direct evidence of the borrowings of these bankers from commercial banks but indirect reference indicated that borrowed capital was 15 per cent of owned capital.

18.45 In the case of Brahmin bankers, Krishnan's[1] estimate of the capital employed by the 175 brahmins was roughly Rs. 5.5 crores. Although the estimates differ widely, the magnitude of the funds involved is an indication of the organised form in which the business must have been transacted by these two banking communities.

18.46 The chettiars and the brahmins, however, no longer occupy the pre-eminent position they once held in the indigenous banking industry. According to reliable sources the old hundi firms of the chettiar variety are practically extinct. Such of the old indigenous bankers in this community who preferred to continue in the banking business have organised themselves from proprietary concerns into partnership concerns. A few hundi firms have joined together and formed banking companies, which are small, but in which the participating firms have a firm financial stake.

18.47 In recent years, with the entry of the Multani shroffs into their territories and increased competition from commercial and co-operative banks, a number of chettiars have given up banking and taken to hire-purchase financing as their principal business activity. This development has resulted in a very few chettiar firms doing pure banking business and diminished considerably the share of chettiar and brahmin partnership firms in indigenous banking. It has not been possible to estimate the volume of banking and hundi business at present transacted by these two communities. The information volunteered to the Group was extremely sketchy and not particularly useful. All that can be said is that the nature of hundi business conducted by the chettiars is broadly similar to that of the multanis but the number of chettiar firms doing hundi business in the entire South is very small, probably not exceeding 50.

Marwari Kayas

18.48 Another class of indigenous bankers is the marwaris known as 'kayas' in Assam. Although little is known of their activities, they have been operating in the tea estates for over a century. Their number has been estimated to be around 400. The 'kayas' are bankers to local tea-gardens and form an integral part of the institutional arrangements for short-term finance for the tea-estates in North-East India.

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1 Krishnan, V., *Indigenous Banking in South India*, Bombay State Co-operative Union, 1959.

18.49 On the tea garden, the kaya is regarded as a multi-purpose man. His main function is trading and in this capacity he runs a shop in the garden premises supplying stores, spare parts, fuel, groceries, medicines, etc. In a limited way, he is a commission agent for the purchase and sale of tea; he also disposes of the used materials like second-hand tea chests and bags, and acts as transport operator for the tea-estate. One of the ancillary but important services rendered by the kaya to the tea-estate is to act as its banker, *i.e.*, cashing cheques, drafts and hundis of the garden manager and supplying cash against them at the garden itself in required denominations of notes and coins for payment of wages and salaries to the garden labourers.

18.50 In the majority of cases, the local banker provides financial accommodation to the tea-estates, the duration of which ranges from a day to a fortnight, by way of discounting cheques and hundis. In a limited number of cases, direct loans are given to economically weak gardens for the season or even for a longer period. In a few cases—12 to 13 per cent of the total number of viable estates—he receives the garden's cheques in advance before he makes the payments to the garden so that he uses the company's funds free of interest. Under this system the kaya is generally paid a commission of 20 to 35 paise per cent for handling cash on garden account. Another banking service he is known to render is the acceptance of cheques drawn by the garden manager favouring third parties. To a limited extent, the kaya also acts as a banker to the estate managers by accepting their deposits and making advances to them in times of emergency. The deposits are accepted with or without interest depending on the period of deposits and the kaya's need for funds. As a rule, he does not accept deposits from labourers except in rare cases. But, occasionally, loans are given to the labourers at rates varying between 24 and 30 per cent. Most of the loans are made in kind and the interest is recovered in the form of higher prices. Some of the bigger 'kayas' also help in the transmission of trade funds from up-country areas and other centres, by endorsing the cheques and hundis received by them in favour of third parties intending to remit funds ; in a few cases, they arrange for the transmission of funds by issuing their own 'hath' hundis on their 'guddies' (offices) in Calcutta.

18.51 The rate of interest or commission charged by the kaya for his banking service varies widely from 20 paise to Rs. 1.25 per cent depending upon factors such as the nature and volume of business handled by him for the estate, the duration for which the funds are locked up (*i.e.*, whether the cheque or the hundi is payable locally or in Calcutta), the distance between the garden and the nearest bank branch, risks involved in the transport of cash and the cost of insurance cover. The kayas' overall business and trading relations with the estate and with the garden manager are principal considerations determining the rate of commission. Often, a kaya is known to charge two different rates for the same banking service given by him to two neighbouring estates.

18.52 Of late, however, there has been a gradual decline in the banking activities of the 'kayas' on tea-estates owing to the spread of branches of commercial banks to upcountry towns and switchover of tea accounts from foreign to Indian banks having branches at upcountry centres. But even so, owing to the fact that the kaya anticipates the demand and is ready at any hour to provide cash quickly, the gardens still continue to fall back on the kayas in times of need.

Credit Instruments of Indigenous Bankers—Hundi

18.53 The most popular method of advancing loans by indigenous bankers is by means of hundis. The hundi is the credit instrument of the indigenous banker, just as the cheque is of the bank. The system of drawing hundis has been in vogue since ancient times ; in fact, it is the oldest surviving credit instrument. Hundis are by and large, instruments in vernacular language and a number of bewildering local usages govern these instruments, some of which are understood to be inconsistent with the provisions of the Negotiable Instruments Act, 1881.

18.54 The legal position of the hundi continues to be the same as that described by the Indian Central Banking Enquiry Committee in 1931 : "There is no legal definition of a hundi. It is governed by custom and usages of the various localities, and only where no specific custom exists does it come under the term 'bill of exchange' within the meaning of the Negotiable Instruments Act"[1]. However, usages as to negotiable paper are gradually changing and the tendency is to bring them more and more in line with the modern style of banking.

18.55 Hundis perform one or other of the three functions, *viz.*, they are instruments used to (*i*) raise money, (*ii*) remit funds, and (*iii*) finance inland trade. Because the hundi performs one or other of the above essential functions, it has been used throughout the country for generations and its popularity has not significantly waned.

18.56 There are two kinds of hundis — Darshani (sight or demand hundis) and Muddati (usance hundis) payable after a stipulated period of time mentioned in the hundis.

18.57 Darshani or demand hundis are paid immediately on presentation. There are generally three parties to a darshani hundi, *viz.*, a drawing shroff, a paying shroff and a payee. The darshani hundi is an instrument created solely for the purpose of financing inland trade or for remitting funds through indigenous banking channels from one place to another.

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1 *Report of the Indian Central Banking Enquiry Committee*, Vol. I, Part I, Government of India, 1931, p. 407, Paragraph 590.

18.58 A muddati hundi is a usance hundi payable a certain period after date or sight. The normal tenor of usance hundi is for 30 days or 60 days, 90 days or 120 days, but hundis maturing within 90 days appear to be most popular. A usance hundi generally involves two persons, *viz.*, the lender and the borrower, and its use is confined to local limits, unlike the darshani hundis which have a wider use in that they are used for payment of goods originating from upcountry places and, passing from party to party in different places, reach destinations of payment very different from their origin. Hundis used by the Gujarati shroffs and the kayas are orders to pay, while multani hundis are in the nature of promissory notes being promises to pay.

18.59 A multani hundi is a promissory note of contract signed by the borrower, stating the amount and giving an undertaking to repay the amount on the completion of a stated number of days, generally 86 days in Maharashtra with three days of grace, and 90 days in South India and West Bengal and without any days of grace.

18.60 There are different varieties of darshani hundis, *viz.*, (*i*) Shah jog, (*ii*) Nam jog, (*iii*) Dekharnar jog, (*iv*) Farmani jog, (*v*) Jokhmi, and (*vi*) Dhani jog[1]. However, many of them have fallen into disuse.

18.61 Hundis continue to be popular because they have been regarded as instruments with some measure of safety. They contain built-in safeguards which make it difficult to forge them.

18.62 The Gujarati shroffs claim that the recent income-tax order has severely affected the volume of their business. According to Section 40A(3) of the Income-Tax Act, all payments exceeding Rs. 2,500 which are claimed as deductions in expenditure should be made by crossed cheque or draft or else they would be disallowed for income-tax purposes. This implies that payments above Rs. 2,500 by hundi of the darshani variety would not qualify for tax deductions[2] and thus would severely affect the use of the hundi as a credit instrument, which offers a very convenient method of financing. In this connection, the shroffs made the following points. First, since there are three parties to a darshani hundi, all residing at distant places, collusion of the kind which bogus usance hundis gave rise to, is unlikely to arise in the case of a darshani hundi. Second, the darshani hundi is generally an instrument created for financing inland trade and for effecting remittances. Also, the volume of inland trade financed through darshani hundi is sizeable.

18.63 The Group after examining these points came to the conclusion that the restriction has adversely affected the popularity of the instrument and

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[1] For details, see Chapter III of the *Report of the Group*.

[2] *Vide* also, Rule 6 DD of the Income-Tax Rules, 1962 which specifies certain cases and circumstances in which payment exceeding Rs. 2,500 may be made otherwise than by a crossed cheque drawn on a bank or by a crossed bank draft.

the volume of the hundi business. The Commission is in general agreement with the Group and recommends according eligibility under this section to payments by darshani hundi.

Cost of Funds in the Unorganised Market

18.64 The main charge against indigenous banking agencies is the usurious rate of lending and the wide spread between the borrowing and the lending rates. Interest rates in the unorganised sector are always a good deal higher than in the organised sector, because the rate of interest charged combines the cost of funds and an allowance for risk. It is often difficult to determine the effective interest rate because of the prevalence of loans in kind, inclusion of other charges such as brokerage, charity, practice of advance deductions of interest, methods of disbursement of loans, etc. During the course of its discussions, the Commission was given figures ranging generally between 18 and 36 per cent per annum as the usual interest rates in this sector. In some economically backward regions, the rates mentioned were much higher than this, over 75 per cent per annum.

18.65 Although the organised and the unorganised markets are separate, there is a link which is provided by the discounting shroff who is an intermediary between the commercial banks and the small borrowers. By this means, continuing relationships are maintained between the organised and the indigenous sector of the money market, so that the rates obtaining in the organised markets do exert some influence on the bazaar rates. The indigenous banker is guided to some extent in what he charges his customer by the rate at which he can discount at the commercial banks and if there is a change in the discount rates, this would invariably be reflected in the rate which the indigenous banker would quote to his customer.

18.66 In this market, with the exception of the multani shroffs, the practice of quoting interest is to state it as a fixed amount, *e.g.*, two rupees per hundred rupees per month. This method conceals the true incidence of the interest rate as *prima facie* the interest cost appears less onerous to the borrower than what it is in reality. If collected monthly the interest rate would be somewhat higher than 24 per cent per annum and much higher if deducted in advance. Furthermore, apart from interest, most indigenous banking agencies tag on incidental charges such as brokerage, stamp fees and charity, which added together escalate the cost of the credit to the borrower by another 2 to 3 per cent for every transaction.

18.67 In Bombay, the rate charged by the multanis was till recently 15 per cent[1] per annum which was the ceiling imposed by the Maharashtra Government under the Bombay Moneylenders Act. Till November 1970,

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1 This has recently been raised to 17 per cent per annum.

this left the multanis operating in Bombay a margin of 5½ per cent between the borrowing rate and the lending rate. However, on January 21, 1970, the Reserve Bank removed the ceiling rate of interest on advances, which was fixed at 9½ per cent on March 2, 1968 and which was applicable to the larger Indian scheduled commercial banks and foreign banks operating in India. Some commercial banks have accordingly raised the discount for the multani hundis from 9½ per cent in 1968 to 10 per cent in April 1970 and to 10½ per cent in May 1970. This was further stepped up by some banks to the level of 13 per cent on February 1, 1971. At this level of the rate, it was obviously uneconomical for the multanis to lend at the statutory ceiling of 15 per cent. Besides paying interest to the banks the multanis are required to pay brokerage of about ½ per cent[1] to brokers through whom the hundis are tendered to the commercial banks for discounting. The gross margin on unsecured advances was barely 2 per cent which was extremely narrow to cover their establishment cost, incidence of bad debts, etc. In such situations, it is a known fact that they operate at higher (undisclosed) rates to maintain the margin. Also when the supply of funds is unduly curtailed even the margin of 5 to 6 per cent tends to go up to make good the reduction in the earnings resulting from reduced turnover.

18.68 The multani shroffs requested the Government of Maharashtra to revise the statutory ceiling upward and in response to their appeal, from July 20, 1971, the ceiling has been raised to 17 per cent. The Group has been given to understand by the representatives of the Shroffs Association that they would be content to operate on a margin of about 5 per cent. However, we are of the view that unless some kind of control is instituted over the lending operations of the multanis, it would be difficult to ensure that the 5 per cent margin is not exceeded.

18.69 In Madras, where there is no ceiling, a rate of 21.6 per cent per annum is charged. Because of the scarcity of funds and low turnover, Madras rates have always been higher relative to Bombay. In Bangalore, the Mysore Moneylenders' Act has put a ceiling of 18 per cent on all advances ; however, the actual rate is pretty close to that of Madras. The margins between the borrowing rate and the lending rate at different centres are set out in Table 18.2.

18.70 Besides interest, the borrowers are required to pay brokerage, stamp fee and a charity fee. The system of brokerage is, however, absent in small towns where the multani is in contact with its customers. All these charges normally add up to 1½ to 2 per cent. Further, the multanis deduct these charges in advance. The real cost of borrowing therefore works out higher than the rate indicated. This may be illustrated by a hypothetical

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[1] Brokerage is paid on the basis of Rs. 60 for every Rs. 1 lakh of discounting irrespective of the life of the hundi.

TABLE 18·2—BORROWING AND LENDING RATES OF MULTANIS

(per cent per annum)

Centre	Commercial Bank's discount rate for the hundi: End December 1970	Commercial Bank's discount rate for the hundi: Current Rate (February 1971)	Rates charged by the multanis	Margin between borrowing rate and lending rate: (3-1)	Margin between borrowing rate and lending rate: (3-2)	Margin between advances and deposit rates of commercial banks
	1	2	3	4	5	6
Bombay	*10·5*	*13*	*15** (*17*)	*4·5* (*6·5*)	*2* (*4*)	*4·7*@
Madras	*10·5*	*13*	*21·6*	*11·1*	*8·6*	—
Bangalore	*10·5*	*13*	*18*	*7·5*	*5*	—

* This has been raised to 17 per cent with effect from July 26, 1971. Figures in brackets are based on the revised rate.
@ Based on the average rate of interest earned on advances and the average rate of interest paid on deposits during 1968.

TABLE 18·3—DISCOUNT PER ANNUM ON BORROWING Rs. 5,000 AGAINST A THREE MONTHS HUNDI

	Bombay Rs.		Bangalore Rs.		Madras Rs.	
1. Interest on Rs. 5,000 for three months	187·50 (212·50)	*15*@ (*17*)@	225·00	*18*@	270·00	*21·6*@
2. Brokerage at 12 paise per Rs. 100 per month, for three months*	18·00		—		18·00	
3. Stamp fee at 50 paise per Rs. 1,000 for three months	2·50		2·50		2·50	
4. Charity fee at 2 paise per Rs. 100 per month for three months*	—		3·00		3·00	
	208·00 (233·00)	*16·64*@ (*18·64*)@	230·50	*18·40*@	293·50	*23·60*@

@ Rate of interest per annum.
* The system of brokerage is prevalent in Bombay and Madras, and a nominal charity fee is levied at Madras and Bangalore.
Note : Figures within brackets are based on 17 per cent rate of interest now permitted in Bombay·

example as in Table 18.3. At current rates, the effective cost varies anywhere between 20 to 24 per cent depending on the customer, location of the business and the nature of the risk, etc.

18.71 The question naturally arises: Would not commercial banks be in a position to supply funds directly to the small borrowers on their personal creditworthiness without demanding tangible securities as is the case with the indigenous bankers? In the metropolitan cities and industrial towns, although alternative and cheaper sources of organised credit are available, due to increased industrial development activity, trade, retail and wholesale, construction, transport, etc., there is a large unsatisfied demand for funds which banks are unable to meet. The traditional bank lending practices result in a large number of small borrowers falling, as far as the commercial banks are concerned, in the low profit or unprofitable category. This is mainly because as has been shown in Chapter 12, the cost of processing small loans is relatively high. Under these circumstances, the proportion of bank finance going to retail trade and small industry has remained rather low.

18.72 Indigenous bankers have thus been able to flourish, utilising in part bank funds, because they have developed techniques for quick credit investigation, are able to decide quickly and also assume a higher degree of risk than banks customarily do. Available evidence with the Group shows that most of the clients of the multanis come to them when their business units are young and facing teething troubles; as they grow and become more creditworthy they tend to migrate to the banks for their requirements. Thus, though in the context of the total credit needs of the economy multani finance forms a small fraction, at the margin, it plays a useful role in supplying the critical needs of the borrower. However, its main drawback is the relatively high interest charges which create difficulties for the borrowers.

18.73 Indigenous bankers like the multani shroffs or the chettiars principally engaged in the hundi business, come in contact with the organised sector of the money market through commercial banks who discount the hundis on the basis of the personal standing of the indigenous banker. Most multani bankers have accommodation facility with at least 6 to 7 banks. Some of the bigger multani bankers enjoy facilities with as many as 13 to 16 banks.

18.74 In the past, the State Bank of India along with other large commercial banks discounted multani hundis and in this manner fed the unorganised market with funds. The State Bank's dealings with the multani date back to the old Imperial Bank days when discounting facilities to the tune of as much as Rs. 10 crores were made available by this bank. Since March 1965, the State Bank has withdrawn completely from this market having launched its own scheme for providing finance to the small scale industrialists. Also, the Reserve Bank's directive on clean advances together with the strain on

the available loanable funds were added factors influencing the State Bank's policy in this matter.

18.75 Other commercial banks have continued to offer discounting facilities to the multani bankers and have partially filled the gap in funds created by the State Bank's exit from this field. But on the whole the volume of funds made available by commercial banks in the hundi market has in recent years been lower than in the past. This is because the growth in the number of their branches and extension of functional coverage enabled them to finance directly sectors such as small scale industries and artisans which used to borrow from indigenous bankers.

18.76 Most of these banks regard the multani business as a profitable outlet for employing banks' short-term funds. They regard the multani as an intermediary between the trader, the merchant and small industrialist on the one hand, and commercial banks on the other, and in this manner credit is enabled to percolate to the small man. The other advantage is the reduction in overall costs to the banking system of servicing a large number of credit applicants.

18.77 There is no distinct trend in the level of commercial banks' outstandings against multani hundis which appear to have fluctuated from a high of about Rs. 27 crores as at the end of October 1966 to a low of Rs. 6 crores at the end of July 1967. This has been attributed by the various multani bankers' associations to the practice of commercial banks of withdrawing discounting facilities to the multani hundi when there is a shortage of liquidity. Many of the banks regard the multani hundi as a convenient form of investment of their idle and surplus funds. They start to provide funds to the multani market from July onwards and the peak is usually reached in October or November; thereafter, the banks start withdrawing their funds. This irregular flow of funds creates a strain on the multani market and leads to considerable dislocation in its operations. In the absence of an assured quantum of funds throughout the year, the multani shroffs are unable to plan their operations properly. Further, even when limits are sanctioned, the utilisation of limits is not assured or automatic as in the case of other bank borrowers, for it is within the discretion of the bank to accept or reject the contract. Only one or two banks are known to allow their multani borrowers to utilise their limits to the full. It is, however, understood that the irregular flow of bank funds to this sector has not so far forced the multani to rely on external funds from private sources except marginally.

18.78 Another outcome of the withdrawal of the State Bank of India from the hundi market has been that facilities for discounting upcountry bills no longer exist. Commercial banks have been reluctant to accept upcountry bills, and want to restrict the bills to their own surrounding.

18.79 From a review of the various methods employed by commercial banks in evaluating the financial standing of the indigenous financial agencies as indicated by the banks themselves in response to the Commission's Questionnaire, it appears that the credit assessment at present undertaken by them with respect to the multani hundi business is of a subjective kind and there is no credit assessment of the ultimate borrowers nor is there any attempt made even in stray cases to ensure the end-use of credit. It is found that little or no attention is paid to the use of financial statements furnished by the indigenous bankers for credit evaluation purposes. The Group has, therefore, suggested that it would be useful if the banks streamlined and rationalised their procedures with regard to the discounting of multani hundis along more scientific lines. They have urged that the information system with regard to this business needs to be properly organised. With a view to bringing about integration of the indigenous bankers with the organised banking system, the Group has recommended that the facility of rediscounting of bills under the new Bill Market Scheme should be extended to the multani hundi. Although there is considerable force in this argument of the Group, the basic requirement that such hundis should be related to a definite trade transaction should not be lost sight of.

RECOMMENDATIONS

18.80 The focus of the recommendations, therefore, is on how best to institutionalise the lending and financial operations of indigenous bankers, thereby extending the area of operations of the organised financial system and harnessing extra resources for meeting the credit needs of retail trade, small industries and other small borrowers. With this as the objective, the recommendations aim at introducing a certain measure of financial and social discipline into their activities.

Regulation

18.81 The activities of the various types of indigenous bankers are hardly subject to any regulation. Organisationally, indigenous bankers are sole proprietary or partnership concerns and the provisions of the Banking Regulation Act, 1949, do not apply to them. The constraints imposed by the Moneylenders' Act prevailing in the various States are inadequate to guard fully the interests of the public in relation to the indigenous bankers.[1]

18.82 Broadly speaking, indigenous bankers can be classified into two categories, *viz.*, (*i*) those who accept deposits from the public for the conduct of their business, and (*ii*) those who do not accept such deposits. Indigenous bankers in the first category, such as the Gujarati shroffs of Ahmedabad, would be regulated according to the scheme for the Banking Code outlined in Chapter 19. The second category of indigenous bankers is really a class

[1] See Chapter VI of the *Report of the Group.*

of moneylenders.[1] In Chapter 19, the Commission has recommended that moneylenders should be brought under the Union list and be regulated by Central legislation. In that event, indigenous bankers not doing the business of banking can also be regulated by Central legislation. Pending such a legislation, the Commission feels that a model legislation should be drafted for adoption by all States to regulate the activities of those indigenous bankers who rely entirely on bank credit as external source of finance for the conduct of their business. This group includes primarily the multanis, such of the Gujarati shroffs who have taken to the usance hundi business and who do not accept deposits from the public, and the chettiars who rely on bank facilities for the conduct of their usance hundi business. The term 'indigenous banker' is used in the rest of this chapter to denote persons in this group. This category is also referred to as 'multanis'.

18.83 Regulation in the form of detailed supervision and periodic inspection of the indigenous bankers is not possible as it would involve building up a large and costly inspection machinery. Reliance on self-regulation through Indigenous Bankers' Association as suggested by the Group is also not feasible. The best way, therefore, to control the business of indigenous bankers, in our view, would be through commercial banks. The Reserve Bank should exercise indirect influence over the business of indigenous bankers through the medium of commercial banks by laying down guidelines for their dealings with indigenous bankers. These could pertain to the type of hundis to be selected, the overall quantum of limits to be sanctioned, the maximum amount per maker and some formula for sanctioning individual limits. The Reserve Bank of India should review from time to time whether commercial bank financing in respect of the multani hundi business is in accordance with the guidelines laid down by it.

18.84 Commercial banks in turn, should also call for regular returns from the indigenous bankers and require them to maintain adequate internal inspection procedures and be subject to regular outside audit.

Terms and Conditions for Discounting Facilities

18.85 The requirements which the indigenous bankers should fulfil in order to be entitled to discounting facilities with commercial banks are : (*a*) Such indigenous bankers should not engage themselves in trading activity. (*b*) As in the case of the banking companies, some minimum capital requirements should be prescribed. We suggest Rs. 1 lakh as the minimum owned resources which an indigenous banker should have, to qualify for the discounting facility. In turn, there should be a ceiling on the total discounting limits which should be fixed as a multiple, say 5 times of the owned funds of each indigenous banker. (*c*) The indigenous banker has to agree to maintain books of account in the usual recognised manner and have them annually

[1] See Chapter 21, Paragraph 21·36.

audited and certified by a recognised firm of auditors. (*d*) A summary statement of the volume and nature of business (in the form indicated in the Annexure 18.I to this chapter) should be furnished annually by each indigenous banker to the Reserve Bank. The Reserve Bank and commercial banks should review annually the activity of indigenous bankers in order to ensure that advances granted by them are for socially desirable purposes. (*e*) As far as possible indigenous bankers should not be encouraged to borrow from more than one bank. (*f*) Indigenous bankers should preferably be members of an association.

Nature of the Link with the Organised Banking Sector

18.86 Although successive attempts were made in the past by the indigenous bankers to establish a direct link with the Reserve Bank, in the changed circumstances of today, it is neither necessary nor practicable to have a direct link. From the administrative aspect, refinancing of indigenous bankers directly by the Reserve Bank will involve considerable labour disproportionate to the amounts of refinance both for the banks and the Reserve Bank as the hundis are for small amounts and the day to day turnover in them (receipts and deliveries) would be large. Also, the Reserve Bank would in that case have to watch on due dates repayments of a large number of hundis each involving relatively small amounts.

18.87 The Commission is also not convinced that the Reserve Bank should allow a certain quantum of refinancing to commercial banks against hundis discounted for the indigenous bankers. At present, the volume of this business is not so large as to warrant separate refinancing facilities and the refinancing requirements of commercial banks can easily be met from the facilities that are customarily given to them. The matter could be reconsidered if the volume assumes significant proportion.

18.88 The Commission recommends that some understanding be reached between commercial banks and the indigenous bankers regarding the level of interest rates that such bankers should charge on advances to their customers. It should be made incumbent on commercial banks to see that no indigenous banker availing himself of bank credit facilities charges interest rates higher than those agreed upon. Although the Moneylenders' Acts in the different States specify ceiling on the interest rates that can be charged, it is understood that ceilings are evaded by making cash deductions to cover higher loan servicing charges at the time of executing a promissory note.

18.89 The Reserve Bank should periodically indicate the interest spread which is considered adequate for this business. Further, where the banks are satisfied that the lending by these bankers is for priority sectors, they should charge a reasonable discount rate and also ensure that the indigenous bankers pass on the benefit to the borrowers. At present, banks

charge the highest rate on advances to multanis on the ground that they are unsecured advances. But experience has shown that although from the point of view of the indigenous banker it is a risky advance, from the commercial bank's angle it is quite liquid. In our view, therefore, there is a good case for commercial banks examining this policy from various aspects such as liquidity, cost and end use of such credit and reconsidering whether there is a case for reducing the discount rate even though such advances are classified as 'unsecured'. Further, commercial banks should make every effort to verify on a random basis the rates charged by the indigenous bankers to the ultimate borrowers. While the business methods of indigenous bankers appear to be sound, nonetheless a code of conduct should be formulated for their operations. Indigenous bankers found to be indulging in malpractices should not be allowed any further bank accommodation.

18.90 At present, indigenous bankers and other classes of moneylenders are regulated by the Moneylenders' Acts which in the case of indigenous bankers in certain States set limits on the interest charges they may levy on secured and unsecured advances. We recommend that it should be made mandatory to disclose the terms of loan transactions to the customer fully. Besides the steep interest charges, there are some unstandardised incidental charges such as brokerage and charity which vary from region to region. For a realistic approach to the cost problem we suggest that these charges be standardised. Further, in addition to indicating the rupee amount of the loan and the interest, the indigenous banker should be required to express the interest and other charges, if any, in terms of the effective rate per cent per annum. The legislation should impose penalties for charges in excess of the standardised ones or for failure to disclose the full terms to the customer and in cases of flagrant violation, the authorities should have the power to suspend the licences of indigenous bankers.

Need for Better Screening Procedures and Credit Analysis by Commercial Banks

18.91 It appears that commercial banks have not paid enough attention to this line of business on systematic or scientific lines. We recommend that systematic evaluation of the financial statements of indigenous bankers be undertaken by commercial banks.

18.92 In granting limits to indigenous bankers, commercial banks should not lay stress on the personal factors alone but all relevant factors should be given due weight. Despite the practical difficulty, commercial banks should make some attempt at independent evaluation of the drawer's financial status, and satisfy themselves at least on a random basis that the credit has been used for the purpose for which it was given. This would induce the indigenous bankers to lend for genuine productive and distributive purposes and remove the doubt that their lending is for unproductive purposes.

Commercial Bank Assistance to Indigenous Bankers in the Form of Uninterrupted Discounting Facilities

18.93 We recommend that once the present approach of commercial banks to credit analysis of indigenous hundi business is replaced by a systematic credit analysis process, the flow of assistance from commercial banks to the indigenous bankers should be steady and uninterrupted. When banks have surplus funds, the multani bankers who avail themselves of commercial banks' discounting facilities have no difficulty in securing accommodation, but in periods of credit stringency, the accommodation granted to these bankers is the first to be curtailed. Furthermore, even when bill discounting limits are sanctioned by the banks, utilisation of limits is not assured or automatic as in the case of other bank borrowers, for it is within the discretion of banks to accept or reject the contract, without assigning any reasons for rejection. Yet another practice prevalent with some banks was to bring all outstandings to nil balance at the stated period in the year. All these practices have an adverse impact on the business of the multani banker. The irregularity in the availability of funds introduces an element of uncertainty and renders it difficult to plan his financial resources. No special advantages are known to accrue from such practices, and we therefore agree with the Group that such practices should be given up. It is, in our view, more important that the flow of funds to this sector is regular, so that it would help in a reduction in the costs to the ultimate borrowers.

Inclusion of Hundis within the Scope of 'Liquid Assets'

18.94 The request was made by the multanis to the Group that the Reserve Bank should include within the scope of 'liquid assets' under Section 24 of the Banking Regulation Act all multani bills discounted by scheduled banks. It is true that multani hundis have proved to be fairly good liquid assets but still they are not riskless. Further, one of the important objects of Section 24 of the Bankig Regulation Act is to ensure that a certain proportion of the deposit resources of the banking system is made available for approved securities; this object would suffer if multani bills were accorded the status of liquid assets under that section.

Increase in the Maximum Value of the Multani Hundi

18.95 Although the practice has been to restrict the value of a multani hundi to Rs. 5,000 in order to spread the risk, it may be desirable gradually to raise the maximum from Rs. 5,000 to Rs. 10,000 and in the case of creditworthy borrowers upto Rs. 25,000, to facilitate increasing amounts of indigenous banking funds being channelled to meet the working capital requirements of small scale industry.

Status of the Hundi

18.96 The provisions of the Negotiable Instruments Act, 1881, as such do not apply to hundis. It is necessary to codify the practices and usages

applicable to such indigenous negotiable instruments and bring these instruments within the framework of the codified law. We also recommend the drawing up of standard forms of Darshani (Sight) and Muddati (Usance) types of hundis.

Darshani Hundi

18.97 Section 40A(3) of the Income-Tax Act requires that all payments exceeding Rs. 2,500 which are claimed as deductions in expenditure should be made by crossed cheques or draft. For reasons outlined earlier[1] we recommend that payments by Darshani Hundi may be recognised as an eligible mode of payment under this section.

Future Role of Indigenous Bankers

18.98 If the indigenous banking agencies are to play a useful role in the future development of the country they would have to grow in size, become more professional in operation and diversify their business. They would have to consider organisational changes such as conversion of partnership firms into corporate enterprise. Their growth should not be governed by the narrow objective of preserving the family unit of enterprise. We recommend that commercial banks in their dealing with indigenous bankers should encourage them to become corporate bodies.

18.99 In our view the future of indigenous banking seems to lie in linking itself with the organised financial system by taking on some of the activities of ancillary non-banking financial intermediaries such as dealing in short-term paper.

18.100 As the economy grows, sophisticated financial institutions would be required to meet the growing credit needs of the community and discount and acceptance houses might become necessary.[2] With their banking acumen and traditional skills the more efficient of the indigenous bankers could transform themselves into discount and acceptance houses provided that they adopt the corporate form of organisation.

CONCLUDING OBSERVATIONS

18.101 To conclude, indigenous bankers perform a useful role inasmuch as they make credit available to those sectors which are productive but which are generally not catered to by commercial banks either on grounds of cost or risks involved. Their methods of operation are expeditious and flexible. Furthermore, the multani shroffs provide to commercial banks a useful money

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[1] See Paragraph 18·62 of this chapter.
[2] See Chapter 16, Paragraph 16·9.

market instrument possessing a high degree of liquidity and giving a good yield. At the same time, as matters stand at present, there is ample scope for abuse of the system. In particular, the rates charged for the credit given by indigenous bankers are rather high. With the type of regulation recommended in the foregoing paragraphs the utility of these agencies to the economy can be considerably enhanced. Although the commercial banks are expected to give much greater attention to satisfy the needs of the small borrowers of various types than in the past, it is unlikely that they will be able to displace indigenous bankers altogether. Nor does the Commission think such displacement essential. A more useful course would be to adopt measures so that these agencies work in conformity with the overall credit policy.

ANNEXURE 18.1

Return to be Filed by Indigenous Bankers who are Members of Recognised Associations

(This return should be filed with the Reserve Bank of India within one month from the close of the calendar year.)

1. Name of the firm and address

2. Names of the partners and their addresses

3. Do the partners have interest in any other firms? If so, please furnish the names and addresses of the firms and the names of partners interested in these firms

4. If there has been a change in the constitution of the firm, please furnish names of retiring/incoming partners and reasons for the change in constitution

5. Please analyse your balance sheet and profit and loss account in the attached form

6. Please provide the following details for a review of your activities:

   (*a*) Total number of borrowing parties during the year and number of hundis issued by them*

   (*b*) Total amount lent on hundis

   (*c*) Average amount of hundis outstanding (based on end month outstandings)

   (*d*) Highest amount lent to any individual party and the business in which such party was engaged

* Even if a borrower has made hundis more than once in the year he should be counted as one.

ANNEXURE 18.I—(*Contd.*)

7. Based on monthly figures, please furnish average amount of lendings by types of borrowers:

    (*a*) Agriculturist

    (*b*) Small Scale Industrialist

    (*c*) Trader : (*i*) Wholesale trader
    (*ii*) Retail trader

    (*d*) Personal

    (*e*) Large scale/medium scale industry

    (*f*) Film industry

    (*g*) Transport operators

    (*h*) Others

8. Rate of Interest/Discount charged

    Minimum

    Maximum

9. Partner's capital employed in the business (based on year end figures)

    (*a*) Deposits from friends/relatives, etc.
    (*b*) Average amount borrowed from banks

10. Number of borrowers who defaulted in meeting their hundis on due dates

    Total amount of loans not recovered

11. Of the amount not recovered, how much would you deem to be unrecoverable

12. Please provide details of the discounting facilities granted by commercial banks

ANNEXURE 18.I—(*Contd.*)

Name of the bank	Limit	Average amount borrowed	Highest out-standings	Lowest out-standings

13. Please furnish a copy of the latest balance sheet and profit and loss account as audited by an authorised chartered accountant

14. Please furnish copies of the latest Income-tax and Wealth-tax Returns

Name of the Firm : ————

BALANCE SHEET AS AT END OF ————

LIABILITIES	ASSETS
Partners' capital at the beginning of the year.	Land and buildings.
Add undistributed profit.	Investments.
Partners' capital as at the close of the year.	Amounts due on hundis considered good.
Deposits.	Amounts due on hundis considered doubtful of recovery.
Other liabilities (please specify under various heads).	Other assets (please specify under various heads).
Contingent liability.	Cash on hand and with banks.

ANNEXURE 18.I—(*Concld.*)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

EXPENDITURE	INCOME
Discount paid to banks.	Discount earned.
Interest on deposits.	Interest.
Rent, postages, electricity, stationery, etc.	Other source (Please specify unde various heads).
Other expenses (Please specify under various heads).	
Net profit available for appropriation.	

PROFIT AND LOSS APPROPRIATION ACCOUNT

Income-tax	Net profit brought down
Profits distributed to partners.	

CHAPTER 19

BANKING REGULATION

19.1 The business of 'banking' has to be regulated in public interest. Regulation requires legislation. In addition to legislation concerning the business of 'banking', that is, banking legislation, there are other laws affecting the carrying on of banking business, such as the laws relating to negotiable instruments and negotiable documents and the laws relating to loans and advances. Unless all the relevant laws are adequate and rational and unless they leave sufficient scope for adaptation and improvement, the banking system in our country will not be able to fulfil effectively its social and economic objectives. Expert bodies in India and abroad[1] have stressed, in the interests of banking development and national economy, the need to review the laws concerning and affecting banking. The importance of a comprehensive review of such laws in depth in the context of banking development is obvious. But such review had not been attempted in our country. Hence, it was but natural that the Government should have asked the Banking Commission to :

> "review the existing legislative enactments relating to commercial and co-operative banking."

The Commission has also been asked to review the role of non-banking financial intermediaries including that of indigenous bankers. For this purpose, a review of the laws relating to non-banking financial intermediaries is necessary. Hence, in the broader perspective of the Terms of Reference of the Commission and with particular reference to the review of the enactments relating to commercial and co-operative banking, the Commission constituted a Study Group (referred to in the rest of this chapter as the 'Study Group' or the 'Group') to review laws concerning and affecting banking. The composition and the Terms of Reference of the Study Group are

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1 The Indian Central Banking Enquiry Committee, 1931, said that "the development of the credit system depends .... also on the efficiency of the legal system" and that "credit at reasonable rates would be impossible if the lender has to insure against legal impediments and risks of unfair treatment in law courts" (page 386). Provincial Committees have called attention to several legal difficulties experienced by banks (page 386).

The Ceylon Banking Commission, 1934, observed : "As a result of our study and interviews with the various witnesses including the legal advisers of Government, we come to the conclusion that the legal machinery of the Island is very defective from the point of credit and lending and that it should be overhauled if banking is to do its legitimate business" (page 103).

In the U.K., the Report of the Committee on Consumer Credit, 1971, (the Crowther Committee) has recently pointed out that "in the absence of any regular review, large sectors of credit law have become increasingly inapt and divorced from reality".

given in Appendix III. The Study Group has presented its report on Banking Legislation.[1] This report on Banking Legislation has gone into questions that arise with reference to definition of 'banking', banking regulation, the enactments governing the national banks, the relationship of banker and customer, and has also indicated the work done so far, and that remaining to be done, on the review of the other laws affecting banking. This chapter and the chapters on National Banks and Other Laws Affecting Banking are based on the report of, and the recommendations made by, the Study Group. Wherever we have modified or otherwise differed from the recommendations of the Study Group, we have indicated the same specifically.

Definition of 'Banking'

19.2 For the effective implementation of any scheme of banking regulation, either we should have a fairly clear definition of 'banking' or a list of persons who could be considered as doing 'banking'. Even if we think of having a list of persons who could be considered as doing banking, there arises the question of evolving the criteria for deciding a person's right or liability for inclusion in, or exclusion from, such a list. It is the definition of 'banking' that has to provide such criteria. In India, the statutory definition of 'banking' was at first a part of the definition of 'banking company' (introduced in 1936 in the Indian Companies Act, 1913) and later given separately in the Banking Companies Act, 1949 (now known as the Banking Regulation Act, 1949). The reason[2] for giving separate definitions for 'banking' and 'banking company' in the 1949 Act was to facilitate the extension of regulation later on also to firms and individuals carrying on banking business.[3] In other words, the definition of 'banking' should be in terms of the nature of the business and should not vary due to differences in the legal status of the persons who carry on such business, such as, statutory corporations, joint-stock companies, firms or individuals.

19.3 'Banking', for the purpose of banking regulation, should be defined having regard to both what is understood as 'banking' in other countries and so far in India, and the objectives of banking regulation. Originally, banking regulation was considered as desirable or necessary primarily for safeguarding the interests of the depositors. Considerations of public interest and requirements of monetary policy and credit policy are also now recognised as the other objectives of the regulation. The definition should also have

[1] The Study Group's review of the other laws affecting banking is not complete due to the comprehensive and technical nature of the review of such laws. The Commission has requested the Government for the making of necessary arrangements for continuing and completing the review. However, in the chapter on Other Laws Affecting Banking, the Commission's views on the general questions that arise for consideration, and the need for a comprehensive review in depth, of such laws, are indicated.

[2] *vide* paragraph 2·8 of the Study Group's report.

[3] At that time, the immediate aim was only to regulate companies carrying on the business of 'banking' since Constitutional and other considerations came in the way of giving effect to the intention of the Select Committees which went into the Banking Companies Bill, to extend banking regulation also to firms and individuals doing 'banking'.

regard to the current division of powers between the Union and the States under the federal set-up of our country.

19.4 In the U.K., there is no statutory definition of 'banking', but there is also no banking regulation as such. However, several privileges are available only to those carrying on banking business. Specified authorities have to consider whether a claimant to any such privilege is doing the business of 'banking'. The result is that there exist a number of official lists of banks, no two of which are identical, and the Crowther Committee has drawn attention to "the confusion that results from the absence of any general-purpose definition of a bank or (if the resources of English language do not extend to that) of a single consolidated list of acknowledged banks."[1]

19.5 The Study Group has taken into consideration the opinions expressed at different times and recently in Kirkwood case[2] and the Protection of Depositors Act, 1963, in the U.K., the considerations bestowed on this question by the Royal Commission on Banking and Finance, 1964, (the Porter Commission), and the legislation, in Canada, and the scope of the banking codes or other enactments dealing with banking regulation in several other countries. In Annexure 'A' to Chapter 2 of its report, the Study Group has referred to the position in other countries. Generally speaking, 'banking' is related in most countries to the acceptance of liabilities from the public. While in Canada 'banking' is sought to be identified with the acceptance of demand and near demand liabilities, and in the U.K., in the majority decision in Kirkwood case,[2] with the acceptance of deposits withdrawable by cheque (together with the function of collecting cheques on behalf of the customers), in many countries[3] all forms of acceptance of deposit liabilities from the public are considered as 'banking.'

19.6 The Study Group has traced (in Annexure 'B' to Chapter 2 of its report) how the first statutory definition of 'banking company' was evolved in India in 1936, the experience gained in the working of this definition, the consideration bestowed on the definition by those dealing with the proposals for a comprehensive Banking Act and the factors which went into the formulation of the 1949 definition of 'banking'. A brief reference may be made here to the developments leading to the formulation of the 1949 definition of 'banking'.

19.7 Though the Indian Central Banking Enquiry Committee, 1931, was not in favour of any precise definition of 'banking', the Informal Committee appointed by the Government of India[4] to consider the proposals for the amendment of the Indian Companies Act, 1913, suggested that 'banking

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[1] *vide* page 63 of the Report.
[2] 1966 (1) All E. R. 968.
[3] *vide* paragraph 2·22 of the Study Group's report.
[4] *vide* paragraph 4 of Appendix 'B' to Chapter 2 of the Study Group's report.

company' may be defined as a company which carried on as its principal business the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order. This definition, which was accepted in 1936 and adopted as part of section 277F of the Indian Companies Act, 1913, was substantially on the lines of the definition suggested by the Royal Commission on Indian Currency and Finance, 1926. Experience showed that in actual working, the qualification 'principal business' considerably eroded the value of the definition. The name by which a company did business (*i.e.*, whether it had as part of its name the word 'bank', 'banker' or 'banking') was temporarily relied on to solve partially the difficulties felt by the Registrars of Companies in classifying companies as banking companies and others.

19.8 Soon after the 1936 legislation, efforts were made to enact a comprehensive Banking Act. The Reserve Bank submitted its proposals therefor in 1939. These proposals, after consideration and change at different stages, ultimately resulted in the Banking Companies Act, 1949 (now known as the Banking Regulation Act, 1949). Though Sir James Taylor[1] was not in favour of the banking definition covering time liabilities, the Select Committees which went into this question were not in favour of such exclusion. But certain other features were added to the definition. In its final form, the 1949 enactment defined 'banking' as "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise." Essentially, it is the scope and adequacy of this definition that require consideration.

A. 'Banking' and Acceptance of 'Demand Liabilities' and/or 'Chequeable Deposits'

19.9 In India, the definition of 'banking' (as part of the definition of 'banking company' introduced in 1936, in the Indian Companies Act, 1913, covered also the acceptance of time liabilities, provided they were withdrawable by "cheque, draft or order". The expression 'order' was used with a view to cover deposits which were withdrawable by "debit forms, written orders, withdrawal slips, cash orders, etc.". However, this left out fixed deposits withdrawable against simple receipts. The aim of the two Select Committees which went into the question of defining 'banking' was definitely to bring within the scope of the regulation acceptance of time liabilities irrespective of their mode of withdrawal. The definition as proposed in the Banking Companies Bill was modified to make this position clear. Thus, since 1936, the definition includes also the acceptance of time liabilities.

19.10 In the U.K., though the concept has been changing from time to time, there is authority for the view that 'banking' should properly be

[1] The then Reserve Bank Deputy Governor (and later, Governor) who formulated the original proposals for a comprehensive Banking Act.

identified with the maintenance of current accounts withdrawable by cheque. In Canada, the Porter Commission would include, within the scope of the definition, the acceptance of demand and near demand liabilities. But we have got to look at the question, having regard to the position in India so far, and the objectives of our regulation. Though there is no banking legislation as such in the U.K., the Protection of Depositors Act, 1963, has as its aim the protection of the interests of the depositors, and this deals with the acceptance of time liabilities by all types of concerns (other than banks)[1]. In Canada, the Porter Commission has recommended the extension of the Chartered Bank Act to cover also other kinds of institutions accepting near demand deposits. Moreover, there is provincial legislation (*e.g.*, Ontario) in that country dealing with the acceptance of deposits by concerns not coming under banking regulation. Since banking regulation in India has as its objectives *inter alia* the protection of the interests of the depositors and promotion of credit policy, public interest would not be served by excluding the acceptance of time liabilities from the scope of the definition of 'banking'.

19.11 *A fortiori*, the objectives of banking regulation would not be served by confining the regulation to the acceptance of liabilities withdrawable against cheque or other similar negotiable instruments. No doubt, acceptance of deposits withdrawable by cheque or other similar negotiable instruments (chequeable deposits) and the acceptance of demand and near demand deposits have particular significance from the point of view of enforcing measures related to the monetary policy of the country. Necessarily, therefore, acceptance of such liabilities is regarded throughout the world as covered by the expression 'banking', and persons having as their business the acceptance of such liabilities are controlled by the monetary authority or the central banking institution. That does not mean that 'banking' should be understood as the acceptance of only such liabilities. The objectives of banking regulation in India are wider. Hence, the definition of 'banking' should cover acceptance of all forms of deposits, independent of their mode of withdrawal. This is also in accordance with the present definition of 'banking' contained in the Banking Regulation Act, 1949.

B. Purpose for Which Deposits are Accepted

19.12 Even prior to 1936, acceptance of deposits by manufacturing and trading firms was considered in India as a form of banking. As early as 1913, acceptance of deposits by industrial companies in India had been

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1 The Crowther Committee has explained thus the absence of control over banks in the U.K.: "There is no special legislation protecting the interests of depositors in banks, which can secure exemption from the Protection of Depositors Act. It can be argued that bank deposits are not investments in the sense that all other deposits are, but while this may apply to current accounts it does not apply to deposit and savings accounts, nor would it justify any lesser protection of the current accounts of individuals. In the last analysis, the only justification for the absence of control is the past record and present reputation of British banks." (page 5).

referred to by the Government of India as a "form of banking", in a letter[1] addressed to the Provincial Governments.

19.13 The definition of 'banking company' introduced in 1936, in the Indian Companies Act, 1913, was not related to the purpose for which the deposits were accepted. In fact, companies which the Registrar of Companies felt had as their principal business the acceptance of deposits withdrawable by cheque, draft or order, were classed by him as banking companies, though such companies were utilising their deposits for their industrial or trading activities. Only in 1942 such companies were required to eschew either the acceptance of such deposits as their principal business or the carrying on of manufacturing or trading activities. Even thereafter companies were not precluded by the provisions which dealt with banking companies, from accepting for the purpose of financing their own business such as manufacture or trade, deposits withdrawable by cheque, draft or order (which, according to the definition, amounted to 'banking'); only such acceptance was not to be their principal business.

19.14 The Select Committees which went into the Banking Companies Bill in 1946 and 1948 were not in favour of applying the scheme of legislation which provided for licensing and such other measures to be applied also to manufacturing and trading companies accepting deposits from the public. The 1948 Select Committee qualified its statement on the definition with the remark that acceptance of deposits by manufacturing and trading companies "should not be regarded as 'banking' *within the meaning of the Act*".

19.15 The 1946 Select Committee proposed that only banking companies should be allowed to accept deposits withdrawable on demand (thereby precluding other companies from doing 'banking' as defined in the Bill). Though this proposal was dropped at the instance of the 1948 Select Committee, the directives of the Reserve Bank issued under Chapter III-B[2] of the Reserve Bank of India Act, 1934, aim to control the acceptance of deposits by both financial and non-financial concerns. While introducing in 1963 the amending legislation which forms the basis of these directives, Government emphasised in Parliament the need to control the acceptance of deposits by institutions other than banks "in the interests of the depositors themselves" and "in the general and wider public interest."

19.16 In the U.K., Canada, the United States of America and several other countries, it is the nature of the liabilities that determines the question whether the person accepting them could be regarded as doing 'banking'. The definition is not related to the purpose for which a person accepts such liabilities. In Kirkwood case[3], Lord Justice Diplock said that "what a

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1 *vide* Government of India's circular referred to in pp. 449-450 of the Indian Central Banking Enquiry Committee's Report.
2 Introduced in 1963.
3 1966 (1) All E.R. 968.

company does with the money it obtains from persons dealing with it is immaterial to the question whether it is *bona fide* carrying on the business of banking"

19.17 Thus, when we take into account the facts that—

(*i*) in other countries the definition of 'banking' is not related to the purpose for the acceptance of deposits ;

(*ii*) prior to 1949, in India the definition covered also the acceptance of deposits by companies for investment in their own field, such as manufacture or trade ;

(*iii*) in 1949, the exclusion of such deposits from the definition was only for excluding companies accepting such deposits from the scheme of the regulation then envisaged ; and

(*iv*) now the provisions of the Reserve Bank of India Act, 1934 (introduced in 1963) aim to regulate the acceptance of deposits by firms and companies for reasons which are really in furtherance of the objects of banking regulation ;

we feel the necessity for the definition of 'banking' covering also the acceptance of deposits by a person for the purpose of investment in his own business, such as manufacture or trade. In other words, the purpose for which deposits are accepted by a person from the public should not be relevant for the definition of 'banking', though it is, while considering the scheme of banking regulation.

C. *Acceptance of Deposits "from the Public"*

19.18 'Banking' as defined in the Banking Regulation Act, 1949, is linked to the acceptance of deposits "from the public". There was no such expression in the definition given in the Indian Companies Act, 1913. The words "from the public" have been interpreted to exclude acceptance of deposits by a body from its members. This interpretation has considerably narrowed the scope of the definition and has facilitated the avoidance of the regulation by companies which, in essence, are doing banking business.

19.19 One need only refer to the position of Nidhis to appreciate the effect of such interpretation. Nidhis are companies incorporated under the Companies Act which accept deposits from their members and carry on lending activities. They have sizeable number of 'members' and it is possible to become a member on a nominal payment of Re. 1. The Supreme Court has pointed out in the case of Kumbakonam Mutual Benefit Fund Ltd.[1] that a Nidhi "was no different from an ordinary bank except that it lent

[1] A.I.R. 1965 S.C. 96

money to, and received deposits from, its shareholders". The Court also held that it is not a mutual benefit society. Moreover, if deposits from members are excluded from the scope of the definition of 'banking', co-operative credit institutions taking deposits only from their members go out of banking regulation ; in relation to co-operatives, both on principle and as a fact, a substantial portion of deposits is bound to come from their members. If deposits taken from members are excluded, it leaves a loophole in the definition and facilitates the avoidance of banking regulation by institutions which are not, in material respects, different from other banking undertakings. Hence, the expression "from the public" should be clarified as covering also the acceptance of deposits by a body from its members or shareholders.

D. Borrowings by Way of 'Deposits'

19.20 In the context of legislation which aims to protect the interests of depositors, the English Common Law distinction between 'loan' and 'deposit' does not seem to have much meaning. The definition of 'deposit' given in the Protection of Depositors Act, 1963 of the U.K. does not distinguish between 'loan' and 'deposit'. Following the decision in Foley *v.* Hill[1], there are a number of decisions both in the U.K. and in India to show that amounts deposited with banks are in reality 'loans'. In the context of banking regulation, legislation in other countries also does not seem to preserve this distinction, *e.g.*, Malaysia, France, Canada. Having regard to the objectives of banking legislation, the best way of getting over the confusion that is bound to result by adhering to the English Common Law distinction between 'loan' and 'deposit' would be to define 'deposit'.

19.21 A view was expressed before the Commission that the expression 'deposit' should cover only moneys placed with another for a specific purpose, or for a fixed term or which is repayable after a period of notice, and that demand deposits with companies (whether or not backed by promissory notes) should properly be held as 'loans' and need not be brought under banking regulation. The suggestion ignores the objectives of monetary policy which require that demand and near demand deposits should be subject to monetary measures as such deposits, in the economic sense, are money, or near substitutes for money. Moreover, the interests of depositors have to be safeguarded whether the relative deposits are repayable on demand or otherwise. Hence, demand deposits (whether or not backed by promissory notes) cannot be excluded from the definition.

19.22 There is a definition of 'deposit' in the Protection of Depositors Act, 1963 of the U.K. The Reserve Bank has also given a definition of 'deposit' in the directives it has issued under Chapter III-B of the Reserve Bank of India Act, 1934. The Bank has not been consistent in this regard.

1 (1848) 2 H.L.C. 28.

The definition it gave originally contained numerous exceptions ; this has undergone a change by the Bank's notification dated December 21, 1971, resulting in a reduction in the number of exceptions. Even under the present definition of 'deposit' given by the Reserve Bank, the exceptions are many and companies could convert the deposits with them into those coming under the excepted categories without difficulty. If necessary, the provisions of the banking regulation may provide for suitable exemptions. But the scope of the definition of 'deposit' should not be restricted. The definition given in the Protection of Depositors Act, 1963[1] of the U.K. appears to be more appropriate for our country. In line with that definition, the expression 'deposit' should be defined as including also borrowings by way of loans, but excluding—

(*i*) borrowings by companies or other corporate bodies by way of debentures ; and

(*ii*) borrowings from Governments, banks, financial institutions established by statute, and any other financial institutions that may be notified by the Central Government.

19.23 We may sum up the position thus. While the exact framing of a definition of 'banking' is a matter for those concerned with drafting the law, the Commission would like to indicate the broad lines on which this may be done. In the Commission's view, 'banking' should be defined as the acceptance of deposits of money from the public. Further, 'deposit' for the purpose of this definition should be statutorily clarified to include borrowings by way of loans, but it should exclude (*a*) borrowings by companies or other corporate bodies by way of debentures, and (*b*) borrowings from Governments, banks, financial institutions established by statute, and any other financial institution that may be notified by the Central Government. In the said context, the expression "from the public" should also be statutorily clarified to include also acceptance of deposits by a body from its members or shareholders.

19.24 Such a definition of 'banking' should not affect casual or stray transactions of borrowings as they are not to be regarded as "acceptance of deposits of money from the public". That expression should not also cover payments by persons who are, or who may be, under an obligation to the person accepting the payment, such as security deposits, or advance pay-

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1 "Deposit' means a loan of money at interest, or repayable at a premium, but does not include—

(*a*) a loan to a company or other body corporate upon terms involving the issue of debentures or other securities ; or

(*b*) a loan by a body corporate, firm or other person whose ordinary business includes the business of banking, or who carries on a business of such other class or description as may be prescribed by regulations of the Board of Trade ;

and references to the deposit of money or the investment of money on deposit shall be construed accordingly".

(*vide* section 26(1) of the Protection of Depositors Act, 1963 of the U.K.)

ments intended for adjustment towards supply of goods or services by the person receiving such payments. Banking regulation need not concern itself with indebtedness arising on account of particular relationships, such as principal and agent, doctor and patient, etc. Transactions arising out of such relationships should not come within the definition of 'banking'. That expression should not also cover each and every transaction which creates any liability to pay a sum of money ; in other words, it is not every indebtedness, but only a debt created as a loan or deposit, that should properly be covered by the definition of 'banking'.

Classification of Undertakings doing 'Banking'

19.25 Having defined 'banking', for the purpose of regulation, it is necessary to go into the scheme of the regulation that should apply to concerns carrying on banking business in one form or another. The scheme should be tailored to suit the different types of banking functions, and the circumstances in which they are undertaken by those doing different forms of 'banking'. Concerns doing banking have to be reasonably classified for this purpose having regard to the form of banking business undertaken by them. There is also need to classify them with reference to their legal status, *viz.*, statutory corporations, companies, firms and individuals. The scheme of banking regulation now set out in the Banking Regulation Act applies only to companies or corporate bodies doing 'banking' as defined in that Act. If the regulation is to cover all forms of banking undertakings, that scheme requires suitable modifications.

19.26 Undertakings which do 'banking' can be broadly classified, on the basis of the forms of banking they do, into those—

(*i*) accepting chequeable deposits ;

(*ii*) accepting non-chequeable deposits for the purpose of lending or investment ; and

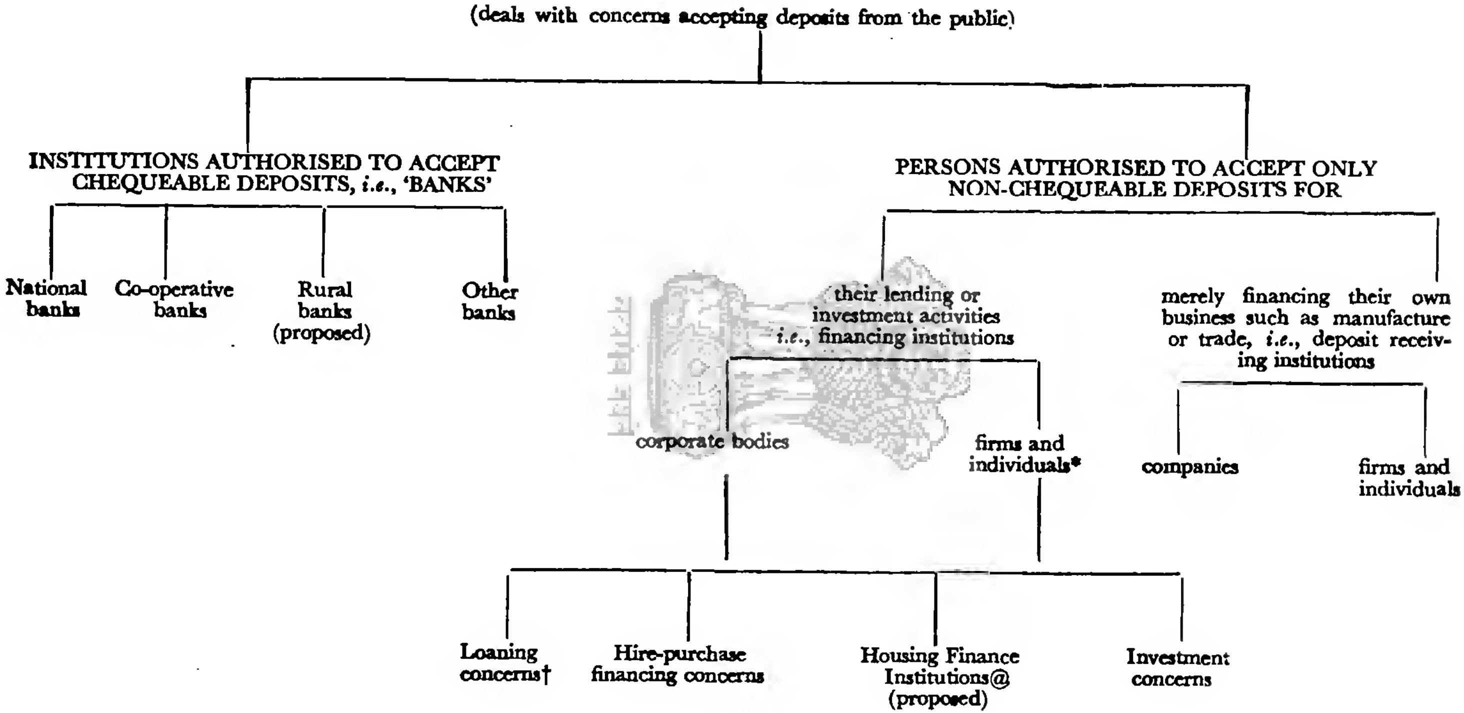
(*iii*) accepting non-chequeable deposits for financing their own business such as manufacture or trade.

For the purpose of regulation, concerns doing (*i*) above may be termed as 'banks', those doing (*ii*) above as 'financing institutions' and those engaged in (*iii*) above as 'deposit receiving institutions'. The scheme of the regulation that should apply to these categories of banking undertakings should take note of the differences in the legal status and the objectives of the concerns. Chart 19.I classifies and gives a perspective of the undertakings which require to be regulated as part of banking regulation.

19.27 For the purpose of banking regulation, private limited companies accepting 'non-chequeable deposits' from their shareholders, com-

CHART 19·I

BANKING CODE



* This category would include persons described as 'private bankers'.
† This includes Nidhis which do not accept demand deposits.
@ See chapter on Non-Banking Financial Intermediaries.

panies taking such deposits from their directors and firms accepting such deposits from their partners need not be brought within the scope of the regulation connected with the acceptance of such deposits. Such exclusion is justified having regard to the limitations as to the number of persons from whom such deposits could be taken and the presumption that people so depositing would be familiar with the financial position and standing of the concerns accepting such deposits.

(*A*) *Concerns Taking Chequeable Deposits* (*Banks*)

19.28 By the expression 'chequeable deposits' is meant the acceptance of deposits withdrawable on demand by cheque (as defined in the Negotiable Instruments Act, 1881) or other similar negotiable instrument(s) or orders. This form of 'banking' merits special consideration, since—

(*i*) cheques and other negotiable instruments payable on demand qualify as 'money'; and

(*ii*) the actions of those accepting such deposits have an important effect on the country's economy and as such there is need for regulating them.

The importance of chequeable deposits and the need to ensure that concerns undertaking such business subject themselves to the discipline that may be enforced by the monetary authority is also recognised by section 49A of the Banking Regulation Act, 1949. In Itty Kurian and another *v.* Union of India and others[1], the Kerala High Court has recognised the reasonableness of classifying concerns doing banking business into those accepting deposits withdrawable by cheque and those accepting only other kinds of deposits.

19.29 Though banking regulation as such is not now applied to firms and individuals carrying on banking business, they are not permitted to accept deposits withdrawable by cheque unless specially notified under section 49A, and it may be noted that no firm or individual has been so notified. In other words, by reason of section 49A, acceptance of deposits withdrawable by cheque (defined in the Negotiable Instruments Act, 1881) is in effect restricted only to corporate bodies specially authorised or licensed to carry on banking business.

19.30 Section 49A, however, requires to be clarified in certain essential respects to bring out clearly its objective. Having regard to the economic significance of chequeable deposits, there is no justification for differentiating between deposits withdrawable by cheque and deposits repayable on demand against any other negotiable instrument, such as hundis. Moreover, the reference to 'cheque' in section 49A leaves scope for some overlapping when

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1 A.I.R. 1962 Kerala 267.

read with the definition of 'cheque' given in the Negotiable Instruments Act as an instrument drawn on a banker. Hence, the reference to 'cheque' in section 49A should be substituted by the expression "cheque or other negotiable instrument payable on demand". The expressions 'deposit' and "from the public" should also be given, for the purpose of this section, the meaning given to them in the definition of 'banking'.

Acceptance of Demand and/or Near Demand Deposits

19.31 The Royal Commission on Banking and Finance, 1964 (Porter Commission) appointed in Canada has pointed out that no meaningful line can be drawn and administered between concerns accepting demand and those accepting near demand deposits. In trying to control the business of accepting non-chequeable deposits, the directives of the Reserve Bank (issued under Chapter III-B of the Reserve Bank of India Act, 1934) aim to confine the acceptance of demand, and near demand, deposits only to banks. Such restrictions have to be retained for effectively regulating the acceptance of chequeable deposits. In other words, it is only those concerns that are authorised to accept chequeable deposits which should be allowed to accept demand and near demand deposits from the public.

Regulating the Acceptance of Chequeable Deposits

19.32 Certain basic features of the regulation, which should apply to institutions accepting chequeable deposits, may be considered here. These relate to the use of the word 'bank', the type of institutions that could accept chequeable deposits, the classification of banks, the forms of business in which banks may engage, the restrictions on the nature of subsidiaries the banks can start, the maintenance by them of liquid assets, and secret reserves, and such other features.

Name—Use of the Word 'Bank'

19.33 Though the definition of 'banking' should comprise the acceptance of all forms of 'deposits', there is authority in support of the view that it is only those undertakings which are authorised to accept chequeable (or demand) deposits that should be allowed to use as part of their names the expression 'bank', 'banker' or 'banking' (*e.g.*, the Banking Code of Pennsylvania, the General Banking Act of the Philippines, the South African Bank Act). In other words, it is only institutions which are authorised to carry on *all* forms of banking, that is, the acceptance of all kinds of deposits *including* chequeable deposits, that should be required and permitted to use as part of their business names the expression 'bank', 'banker' or 'banking', and others, including other undertakings carrying on other kinds of 'banking', should be precluded from using such terms as part of their business names.

Only Corporate Entities to Accept Chequeable Deposits

19.34 The Kerala High Court[1] referred to the provisions of the Indian Companies Act, 1913, the amendment of the said Act introduced in 1936, and the considerations of the Indian Central Banking Enquiry Committee and opined that the underlying idea of the Legislature was that the business of banking should, as far as possible, be done by a banking company which will be subject to control and directions which are necessary in the interests of the general public who deposit their money. The Committee had noted that while the incorporation of a banking concern cannot prevent fraud or mismanagement, it ensured a minimum standard of efficiency and integrity in the conduct of the business of the institution.[2] It also tended to prevent the growth of mushroom banks with less extensive distribution of risks and with not much capacity to withstand shocks.

19.35 In 1949, banking regulation could not be extended to firms and individuals also due to practical difficulties. The essential provisions of the banking regulation, such as the requirements as to capital, the creation of a reserve fund, the prohibition against the granting of loans and advances to, or to the relations of, persons entrusted with the management of the undertaking, etc., could be effectively applied only with reference to incorporated undertakings. In the absence of incorporation, it would be difficult to segregate effectively the assets and liabilities of a banking undertaking (including those of any business which could be allied to it) from the assets and liabilities of other kinds of business. Such segregation is necessary *inter alia* to ensure that in the event of dissolution the outside creditors of a banking undertaking, who are mainly its depositors, get a preferential claim on the assets of the undertaking. Thus, public interest would be better served if banking undertakings are run by corporate entities.

19.36 The position in other countries also supports the conclusion. Banking legislation in the U.S.A. generally precludes the setting up of banking undertakings which are not incorporated. Though a few private banks still exist, their number is dwindling since no new private bank can be started. In Malaysia, banking business as also the carrying on of borrowing business is confined, under different statutes, only to corporate bodies. In Australia, Denmark, Japan, Norway, and in the Philippines, commercial banks are required to be organised only as corporate bodies. The insistence on banking undertakings being organised as companies is "a requirement that is becoming increasingly common in commercial banking legislation".[3]

19.37 In the chapter on Indigenous Bankers, we have also expressed the view that if the indigenous banking agencies are to survive, they should

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1 Itty Kurian and another *v.* Union of India and others (A.I.R. 1962 Kerala 267).

2 Paragraphs 676 and 694 of the Report.

3 A. M. Allen and others, "*Commercial Banking Legislation and Control*", Macmillan & Co., London, 1938, page 290.

envisage the possibility of an evolution and be ready to combine themselves on joint stock principles of pooling their capital resources to form indigenous joint stock banks. While a voluntary approach may be desirable for inducing undertakings accepting non-chequeable deposits for lending or investment (*i.e.*, financing institutions) to get themselves incorporated, having regard to the importance from the point of view of national economy and public interest, incorporation of undertakings accepting chequeable deposits has to be made compulsory.

19.38 The Study Group has also gone into the question as to whether the confining of the business of accepting chequeable deposits only to corporate undertakings could be considered as an unreasonable restriction under our Constitution. After referring to section 49A, the decision of the Kerala High Court in Itty Kurian's case,[1] the decision of the Supreme Court in the Bank Nationalisation case[2] and the Constitutions of the U.S.A. and Japan, the Study Group has concluded that if the business of accepting chequeable deposits is required to be carried on only by incorporated undertakings which otherwise also conform to banking regulation, such a requirement could not be considered as amounting to an unreasonable restriction.

19.39 Thus, for the effective implementation of the regulation of the business of accepting chequeable deposits, the carrying on of such business should be allowed to be undertaken only by incorporated bodies. The effect of such a requirement, read with the clarifications considered necessary earlier, on the expressions 'chequeable deposits', 'deposit' and 'from the public', would be this: Non-corporate entities, such as firms and individuals, which are already doing such business should be allowed a reasonable time within which they could either bring their undertakings under corporate ownership and get the licence to carry on such business, or eschew such business. In our view, a period of two years should be allowed for this purpose from the date such a requirement is made statutory. Indigenous bankers who are accepting deposits withdrawable by hundis should be required either to incorporate their undertakings and get the licence from the Reserve Bank, or to eschew the acceptance of 'chequeable deposits', within the prescribed time.

Classification of Banks

19.40 Thus, concerns which now accept chequeable deposits (banks) would be either companies, co-operative societies or statutory corporations. There could also be special class(es) of institutions set up by, or under, the provisions of any legislation which Parliament may make, *e.g.*, rural banks which we are recommending. In other words, in the classification of 'banks' would come the present scheduled and non-scheduled banks and such com-

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[1] A.I.R. 1962 Kerala 267.
[2] A.I.R. 1970 S.C. 564.

panies or other corporate bodies that may be authorised to carry on the business of accepting chequeable deposits hereafter[1]. Banks could be classified as follows, on the basis of their legal status:

(*i*) banking corporations set up under separate Acts of Parliament and which are wholly or substantially owned by the Central Government directly or indirectly (national banks) ;

(*ii*) co-operative societies accepting chequeable deposits and which are registered under the Co-operative Societies Acts of the States (co-operative banks) ;

(*iii*) co-operative banks, or subsidiaries of national banks or of 'other banks' established as 'rural banks' ;

(*iv*) 'companies' authorised to accept chequeable deposits ('other banks').

Some of the Post Office Savings banks, no doubt, accept chequeable deposits ; but their business does not comprise lending or investment. The Post Office Savings banks are run as Departmental agencies of the Central Government and are in a special category. Government may consider what type of regulation is necessary to govern Post Office Savings banks.

(*i*) *National Banks*

19.41 The national banks form a class by themselves. They are required to fulfil certain social and economic objectives. Having regard to their ownership pattern, their dominating position in deposit mobilization and the major role they are expected to play in the banking field, the legal provisions relating to their set-up, powers and functions are considered separately in the next chapter.

(*ii*) *Co-operative Banks*

19.42 While the Banking Companies Act, 1949, was placed on the statute book, the view was that it would not be necessary to regulate co-operative societies carrying on banking business since

(*a*) they were subject to the provisions of the Co-operative Societies Acts of the States ; and

(*b*) 'Co-operative societies' being a State subject, it was then considered appropriate to leave the regulation of the business of co-operative banks to the States.

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[1] Indigenous bankers, who are now accepting deposits withdrawable by hundis and repayable on demand or near demand, would figure as a special category in the class of persons authorised to accept chequeable deposits for the period that may be allowed to them under paragraph 19·39 *supra*.

The Co-operative Societies Acts of the States aim to provide for the orderly development of the co-operative movement in accordance with the Directive Principles of State Policy enunciated in the Constitution. By reason of the States' responsibility over 'Co-operative Societies', the jurisdiction of the States even as regards such societies carrying on banking business is obvious.

19.43 However, the Reserve Bank had to give financial assistance to a large extent directly and indirectly to co-operative banks. In order to ensure that the concessional finance granted to them was utilised for the intended purposes and that it reached the ultimate borrowers at a comparatively reasonable cost, the Reserve Bank had to evolve a scheme of voluntary inspection of co-operative banks. This did not prove to be effective. Moreover, 'banking' was a Central subject and Parliament could not absolve itself of the responsibility to regulate this business, though it was carried on by co-operative societies. Hence, the Banking Laws (Application to Co-operative Societies) Act, 1965 was passed by Parliament extending the provisions of the Banking Companies Act, 1949, to co-operative societies doing 'banking' (as defined in the 1949 Act)—though not to all of them—subject to modifications. With the extension of the regulation to co-operative societies, the name of the legislation Banking Companies Act did not fit in—and this resulted in its being renamed as Banking Regulation Act. Thus, with reference to co-operative societies doing 'banking', both the legislation of the Centre and of the States apply.

19.44 As the Constitution stands, the primary question with reference to co-operative banks is the reconciliation of the jurisdiction, namely, of the Centre and of the States. The concern of both the jurisdictions is real, and cannot be avoided. We may, in this connection, refer to a recent decision of the Nagpur Bench of the Bombay High Court[1]. The High Court has held that if a society (including a banking society) is registered under the Co-operative Societies Act, then it is the Co-operative Department which should control the working of the said society and it is for that Department to see that the administration of such society is carried on smoothly and if there are serious irregularities in the administration, to carry on the administration by appointing administrators. The High Court has also held that so far as the banking business as such is concerned, the Reserve Bank will have control over the working of the society and that it has also got the power to cancel the licence of the society if such a step is found to be necessary. The High Court has also indicated that this, however, does not conflict with the control of the society by the Co-operative Department as the functions of the two bodies, namely, the Reserve Bank and the Co-operative Department or the Registrar, are different. As things stand, the best way of reconciling the claims of the Central and the States' jurisdictions in regard to co-operative societies doing banking is to make them subject to banking regulation in matters which will not encroach on the States' jurisdiction.

[1] Special Civil Application No. 897 of 1970 decided on April 30, 1971.

19.45 The regulation of persons carrying on the business of banking and providing credit and others who merely provide credit without undertaking any form of banking is now the concern of different jurisdictions, the responsibility for the former rests with the Union, and the responsibility for the latter rests with the States. This is in addition to the dual responsibility (that is, of both the Union and the States) with reference to the co-operative banks. In our view, for economic and also operational reasons, it is not desirable to have such divided jurisdiction or dual jurisdiction over those providing credit.

19.46 The economic reasons may be summed up thus. The credit agencies should be woven into an organised system and for this to be effectively implemented, the power to regulate all the constituents should rest in one jurisdiction. Only then, questions pertaining to the setting up of new units, the regulation and behaviour of the constituents, follow-up action, etc., could be effectively solved. The present system under which co-operative banks are regulated both by the Centre and by the States, and the moneylenders by the States, whereas banks are regulated by Central legislation has partly contributed to the uneven development of the banking and credit system of our country. Co-operative banks are primarily banks though they are organised as co-operatives.

19.47 The operational arguments may be set out thus. Management is a crucial factor in the efficient running of banking business, and the present dual control over co-operative banks results in inefficient management. Badly managed banks can waste the savings of the community and as such adversely affect both the depositors and the nation. They also tend to interfere with the overall monetary policy. It is the failure of the management that is the predominant malaise of the co-operative banking system. Moreover, it is necessary that with reference to all credit institutions, the recruitment and promotion policies adopted accord with certain uniform principles, while at the same time providing for variations depending on the conditions prevailing in particular areas.

19.48 Hence, though the Study Group has examined the question with reference to the position that now prevails under the Constitution, we go further and recommend that the jurisdiction to regulate moneylenders and money-lending and also co-operative credit agencies should be transferred either to the Union List or to the Concurrent List. Such transfer could be effected only by a Constitutional amendment.

(*iii*) *Rural Banks*

19.49 This is a class of banks, the formation of which has been recommended in Chapter 8. The rural banks can be regarded as a further development in the institutional framework for the provision of rural credit. They

are simplified types of banking undertakings tailored to the needs of the rural community. The establishment of these banks under the available legislation is cumbersome and costly. The nature of the legal provisions that need to be made to facilitate the formation and the effective functioning of these banks are dealt with in the following paragraphs.

19.50 Where the primary co-operative credit societies are already well-managed and efficient units, or where, with some marginal assistance, they can become so, in those areas, such good primaries may become rural banks. There are, however, areas where it may be necessary to bring into existence rural banks as distinct entities.

19.51 When such good primaries become rural banks, it is preferable that such rural banks operate within the co-operative structure where the higher level structure, namely, the district and/or State co-operatives, is strong, and thereby retain the federal structure of co-operatives. Where, however, because of the weaknesses in the higher level structure, this is not possible, it is necessary to provide for such good primaries, which are to be converted into rural banks, a suitable institutional link-up which would give them necessary support and facilitate their continued effective functioning. This could be ensured by enabling such rural banks to become subsidiaries of commercial banks.

19.52 For similar reasons, in areas where it is necessary to newly set up rural banks as distinct entities, such undertakings may have to be started as subsidiaries of commercial banks. It is only the commercial banks that can supply the undertakings with the necessary resources as to capital, qualified personnel and other guidance and assistance necessary to make them function effectively. If, however, the commercial bank which has formed such a subsidiary wants to give up its responsibility, it should be possible for such subsidiary to revert back to the co-operative fold.

19.53 In other words, the scheme of rural banks envisages provisions that would facilitate the conversion of good primary credit societies, at the primary level, into rural banks, which may continue to be in the co-operative structure; these may be termed as 'rural co-operative banks'. It also visualises the setting up of new banking undertakings, in rural areas, as subsidiaries of commercial banks, to be called as 'rural subsidiary banks'. Where an eligible primary credit society does not have a strong higher level structure, it should have the choice to become a subsidiary of a commercial bank and become a 'rural subsidiary bank'. There should also be provisions to facilitate a 'rural subsidiary bank' to come into the co-operative fold and become a 'rural co-operative bank'. But, all rural banks should come (except for the differences inherent in the organisational pattern relating to their set-up) under one set of common regulations relating to authorised business and other matters as specified later; this is necessary to ensure a meaningful comparison

of their performance and effectiveness. Moreover, in its application to rural banks, banking regulation should be appropriately modified having regard to the purpose behind the formation of rural banks. These require enabling and supporting legislation both of the Centre and of the States; Central legislation would suffice on the implementation of our recommendation to confer on the Union the power to legislate on matters relating to the incorporation, regulation and winding up of co-operative credit societies.

19.54 Thus, the legislative provisions relating to rural banks may have to comprise

(*a*) those necessary to facilitate the selection of good primary credit societies as rural banks;

(*b*) those necessary to enable the setting up of fresh units as subsidiaries of commercial banks and other incidental matters;

(*c*) those necessary to provide for conversion of category (*a*) into (*b*) and *vice versa*;

(*d*) those necessary to ensure that rural banks (of both categories) function effectively and serve the banking and credit needs of the rural areas ; and

(*e*) other matters that require attention in relation to the above.

While the Union can provide for most of the matters specified above, there may have to be complementary State legislation in certain matters, especially (*c*) above. In certain matters, such as the concessions in relation to payment of stamp duty, registration charges, etc., to be made available to 'rural subsidiary banks', and in certain other respects, it may be necessary for the States to make appropriate provisions. The matters which the Union could provide for should become a part of banking legislation. The necessary changes which we suggest to the Co-operative Laws may be effected by the States by passing appropriate legislation.

19.55 Before going further, it is necessary to consider the adequacy, or otherwise, of the available framework for setting up the 'rural subsidiary banks'. In this context, there are the following alternatives, namely, either to set up these institutions as 'companies' under the Companies Act, or as 'co-operatives' under the Co-operative Societies Acts of the States.

19.56 The framework available under the Companies Act, 1956, to enable the setting up of banking and other corporations, suits only the requirements of an organisation of certain minimum size and scale of operations. The Company Law framework is a general one and may not suit the special

needs of a situation. 'Rural subsidiary banks', if registered under the Company Law, would have to comply with the requirements applicable to a public company (*vide* also section 43A of the Companies Act, 1956). The legal requirements to be observed by a 'public company' under the Company Law are too many, and the time, the expertise and the expenses required to comply with those requirements simply make the Company Law framework unsuitable for a small banking institution having as its prime objective the meeting of the banking and credit needs of a rural area. It may be readily seen that these requirements are too onerous when contrasted with the expertise available and the resources that could be mobilised for setting up such undertakings.

19.57 In contrast, it may be seen that the formalities relating to the setting up of co-opertives and their functioning are not many and are not complicated. The members of a co-operative bank are allowed to withdraw their share capital. Again, co-operatives, and not 'companies', have the advantages of the comparatively cheap and inexpensive machinery for reconciling disputes and enforcing claims. 'Companies' do not also have the benefits of fiscal and other monetary concessions available to co-operative banks, such as exemptions from tax on income, payment of stamp duty and registration charges. 'Companies' also do not have the advantages available to co-operatives in the matter of the creation of charges on their borrowers' assets and the priority over other claims for payment of dues owing from their borrowers. But, there are also now certain disadvantages in choosing the co-operative framework for the 'rural subsidiary banks'.

19.58 It may not be feasible for a commercial bank to start as its subsidiary a rural bank under the Co-operative Law. A commercial bank of an all-India size will have to sponsor such subsidiaries in many States and this would mean that it has to deal with differences that exist in regard to policies, administration of law and other arrangements. Moreover, the Co-operative Laws do not at present permit co-operative banks to form subsidiaries. Basically, the co-operative framework is not suited to the concept of subsidiaries; the ruling principle there is of federalism. There would not be homogeneity if commercial banks start subsidiaries in the co-operative sector.

19.59 These differences apart, there is the difficulty, referred to earlier, arising out of the dual control over co-operative banks, for which we have recommended Constitutional amendment to end the division of the jurisdiction to legislate over banking and credit agencies, between the Union and the States. There are also certain provisions which are unduly restrictive and to which co-operative banks are subject, in the Co-operative Societies Acts and the Rules framed thereunder, *e.g.*, the limitations under the Co-operative Laws on the business of co-operative banks, the disability for their lending to non-members, linking of their maximum borrowing power with their owned funds. New institutions started as rural banks should be set up in a manner that would provide for them the benefits that accrue to co-operatives, while

avoiding their drawbacks. These imply that a separate statutory framework should be provided for the formation of 'rural subsidiary banks'.

19.60 The essential features of the scheme of the legislation that the Union has to promote for the set-up, functions and responsibilities of rural banks are set out below to facilitate expeditious promotion of the legislation. These relate to the definition and setting up of rural banks, the types of rural banks, the authority to register new institutions, provisions relating to their licensing/notification, provisions necessary to facilitate amalgamation of other banking undertakings in the area, their capital requirements, the forms of business such banks can carry on, requirements as to maintenance by them of liquid assets and cash reserves, their borrowing powers, etc.

(*a*) *Definition and Setting up*

19.61 In the light of our discussion earlier, rural banks would be either approved primary co-operative credit societies, or banks set up as subsidiaries of commercial banks. Their object should be to meet the banking and credit needs of a rural area.

19.62 In the case of 'rural subsidiary banks', the promoting commercial banks have to evince an active interest in the setting up and the functioning of such rural banks. The promoting banks have also to guide and give other necessary assistance to them. Hence, it is necessary that the promoting bank has at all times a controlling interest in its 'rural subsidiary bank' both in terms of the total voting power and exercising the majority control in the managing body of such rural bank.

19.63 In the case of 'rural co-operative banks', it is necessary that the district co-operative banks take active interest in their working. With this aim, it would be necessary to provide for the district co-operative banks exercising certain supervisory role and taking certain direct responsibility for the performance of such banks. In areas where there are primary credit societies which are considered eligible to become rural banks but where the concerned district co-operative banks are weak, these societies may have to be linked with the State co-operative bank directly in order to function as rural co-operative banks.

19.64 Having regard to all these features, a rural bank may be defined as a notified co-operative bank, or a licensed subsidiary bank of a commercial bank, functioning or set up in a rural area for the purpose of providing banking and credit facilities in that area. For the purpose of this definition, it would be necessary to define the expressions 'rural area', 'commercial bank' and 'co-operative bank'. The definition of 'rural area' should be decided on the basis of well-accepted criteria, such as, the Census classification. Where the area, in which a rural bank has been set up, is subsequently considered as

non-rural, this should not *per se* affect the powers, functions and provisions applicable to such rural banks. Generally, a compact group of villages should comprise such an 'area'.

19.65 The actual area of operation may be left to be specified by the Reserve Bank taking into account the local conditions. The determination of the areas where rural banks are to be set up, and whether any primary credit society, existing or proposed, should be notified as a 'rural bank' in any area or a commercial bank should start a subsidiary (and if so, the particular commercial bank which should be given this responsibility) may be left to the assessment of the Reserve Bank. The Reserve Bank may from time to time set out the principles it follows for such determination.

(b) Types of Rural Banks

19.66 In the light of our earlier discussion, rural banks could be classified either as 'rural co-operative banks' or as 'rural subsidiary banks'. The first should be primary co-operative credit societies which, in the opinion of the Reserve Bank, are considered as qualified to be classified as rural banks and which are so notified. The second would be the wholly or substantially owned subsidiaries of commercial banks set up as rural banks.

(c) Registering Authority

19.67 While the Registrar of Companies acts as the registering authority for companies, and the Registrar of Co-operative Societies for the co-operative banks, the rural banks which may be set up as subsidiaries of commercial banks cannot be so registered, since they would be neither 'companies' nor 'co-operative societies'. Hence, it is necessary to provide for an appropriate authority to register 'rural subsidiary banks'. Two alternatives can be considered in this regard. The first would be to empower the Reserve Bank to act as the registering authority for 'rural subsidiary banks'. The second alternative would be to empower the Registrar of Companies to open a special register for registering the 'rural subsidiary banks' and vest him with necessary authority for the same. The question whether in the case of banking companies there should be a dual authority, namely, the Registrar of Companies looking after the interests of the shareholders and the Reserve Bank looking after the interests of the depositors and otherwise ensuring the effective functioning of banking companies, is also an allied question. In the chapter on Other Laws Affecting Banking we have indicated that the effect of the provisions of the Company Law insofar as it has a bearing on the working of the banking system requires a comprehensive examination. As part of this question, it has to be considered whether the Registrar of Companies should really be saddled with any responsibility with reference to banking companies. In any case, the Reserve Bank has to license the 'rural subsidiary banks'. There could be an avoidable duplication of consideration by the Registrar

of Companies, since before licensing the Reserve Bank has to satisfy itself about the fulfilment of conditions necessary for registration.

19.68 In our view, the logical thing seems to be to have the 'rural subsidiary banks' registered by the Reserve Bank rather than by the Registrar of Companies. The functions which the Registrar of Companies at present performs as regards companies could be entrusted to the Reserve Bank as regards 'rural subsidiary banks'. For this purpose, the Reserve Bank may have to open a branch or branches in each State which could *inter alia* act as the registering authority for such rural banks. The necessity for the Reserve Bank opening its full-fledged branches in all the States has also been stressed by some of the State Governments and banks and a few others who have placed their views before the Commission.

19.69 Where a promoting commercial bank decides to sever its links with the 'rural subsidiary banks', then another commercial bank could take the place, and perform the functions, of the promoting bank. It should also be possible, in appropriate cases, for a 'rural subsidiary bank' to become a 'rural co-operative bank'; this would require the entry of such rural bank in his Register by the Registrar of Co-operative Societies and the cancellation of the entry in the Register of Rural Subsidiary Banks maintained by the Reserve Bank. The Reserve Bank may also initiate action for the substitution of a promoting bank, or for conversion of a 'rural subsidiary bank' into a 'rural co-operative bank' *suo motu* when it considers that such action is necessary in the interest of banking development.

(*d*) *Licensing/Notifying of Rural Banks*

19.70 The obtaining of a licence from the Reserve Bank would be a pre-condition for the 'rural subsidiary banks'. Having regard to the number of 'rural subsidiary banks' that would have to be licensed and the fact that unless such licences are issued, 'rural subsidiary banks' cannot commence business, it is necessary that a simple procedure is evolved for expeditiously dealing with the applications for licences from 'rural subsidiary banks' and that as far as possible the licences are not refused except on substantial grounds. This simplified procedure is warranted on account of the fact that the promoting bank would itself be a licensed bank and it could be presumed to supply the necessary expertise and guidance for the effective running of the 'rural subsidiary bank'. The licences should be issued on the fulfilment of certain objective standards. However, if, in the working of any 'rural subsidiary bank', the Reserve Bank finds any cause for concern, it would always be in order for the Reserve Bank to take appropriate action which may even result in the cancellation of the licence. The Reserve Bank may also decide on the other measures to be taken to meet the banking and credit needs of the 'area' served by a 'rural subsidiary bank'.

19.71 Our scheme of rural banks envisages a processing of the existing primary credit societies by the Reserve Bank with a view to decide on their eligibility to qualify as 'rural co-operative banks'. Based on certain assessments made earlier, we assume that there are likely to be about 30,000 primary credit societies which may qualify as 'rural co-operative banks'. It would become a time-consuming and purpose-defeating endeavour if the Reserve Bank were to undertake detailed scrutiny of such numerous societies, for deciding on their eligibility to qualify as rural banks. Hence, it is necessary that the Reserve Bank should draw certain minimum and objective criteria that the primary credit societies should be required to fulfil. If, on a *prima facie* assessment, the Reserve Bank is of the view that these criteria are fulfilled, then the Bank should notify the primary credit societies fulfilling such criteria as 'rural co-operative banks'. However, if, at any time, the Reserve Bank is of the view that the affairs of any such 'rural co-operative bank' are not being conducted on healthy and sound lines, then it should be in order for the Reserve Bank to de-notify it from the list of 'rural co-operative banks'. On such a de-notification, the 'rural co-operative bank' should cease to be eligible to the concessions and other privileges enjoyed by rural banks. Then, it should also be in order for the Reserve Bank to ask any commercial bank to start a 'rural subsidiary bank' in the area earlier served by a 'rural co-operative bank'.

(e) *Provisions to Facilitate Amalgamation*

19.72 The Banking Regulation Act, 1949, provides *inter alia* for the voluntary amalgamation/merger of one banking company with another. In the areas where the 'rural subsidiary banks' are to be set up, there may already be banking undertakings, mostly co-operative credit societies, which are not functioning well or which the Reserve Bank considers as not eligible to qualify as 'rural co-operative banks'. It is desirable to provide for the merger of such societies/undertakings with the 'rural subsidiary banks'. The provisions that could be thought of may be somewhat on the lines of section 44A of the Banking Regulation Act, 1949, and the Reserve Bank should be given the necessary powers to sanction the schemes of amalgamation. Under the present Constitutional position, as regards co-operative credit societies, the powers in this regard may be exercised only if there are corresponding provisions under the Co-operative Societies enactments of the States enabling the Reserve Bank (or the Registrar of Co-operative Societies, as the case may be) to take steps for the amalgamation of societies which are not economically viable and financially sound, with 'rural subsidiary banks'.

(f) *Provisions to Facilitate Primary Credit Societies to Become 'Rural Subsidiary Banks'*

19.73 It is conceivable that either due to the weakness of the higher level structure or for other valid reason, a primary credit society which fulfils the eligibility standards of the Reserve Bank to be classified as 'rural co-opera-

tive banks' may like to come under the umbrella of a commercial bank instead of continuing to stay within the co-operative fold. In such cases, the concerned primary credit society should amend its bye-laws and its constitution in such a way as would give a promoting commercial bank the majority holding both in terms of exercise of voting power and in terms of management control. With reference to such eligible primary credit societies, the Reserve Bank should decide on the commercial bank which could be given the responsibility to act as the promoting bank. Subject to the fulfilment of these conditions, such rural banks should be removed from the Register of Co-operative Societies maintained by the Registrar of Co-operative Societies and should be included in the Register of Rural Subsidiary Banks maintained by the Reserve Bank. It would be necessary to have complementary State legislation to effectuate this.

(g) Capital Structure

19.74 In relation to 'rural co-operative banks', what is required to be provided as regards their capital structure is only the prescription of the minimum paid-up capital that such banks should have. In our view, this should be Rs. 50,000 and consequentially the minimum authorised capital of a rural bank should be fixed at Rs. 1 lakh. The existing restriction applicable to the transferability of shares in co-operative societies should apply also to the transferability of the shares of the 'rural co-operative banks'. The nature of the restriction should be to limit the transferability of shares only to *bona fide* residents of the area of operation of the 'rural co-operative bank'.

19.75 Where a commercial bank sets up a 'rural subsidiary bank', it should offer to the residents in the area of operation of such rural bank about 49 per cent of the share capital of the rural bank. In cases where such local participation in shares is not forthcoming, the promoting bank should increase its participation in the share capital to make up the shortfall in the minimum capital required. If necessary, the promoting bank may subscribe wholly to the share capital, and may, later on, offer to the residents of the area, its holdings of shares in the rural bank, so that it always retains the controlling holding both as to share capital and as to management control. The minima as to paid-up capital and the authorised capital for a 'rural subsidiary bank' should be the same as are specified for a 'rural co-operative bank'. There should also be a limitation on the transferability of shares in the 'rural subsidiary bank' on the analogy of the provisions now found applicable to transfer of shares in co-operative societies. The shares should be made transferable only to *bona fide* residents of the area of operation of the 'rural subsidiary bank'. There should, however, be only one class of membership in such rural banks.

19.76 The shares of rural banks should be allowed to be transferred freely between the residents of the area and should be capable of being issued

just like the shares of co-operative societies, or nidhis, and it should be possible for the rural banks to buy back their shares from their members, as is allowed under the Co-operative Laws. The liability of members, who subscribe to the share capital of the rural banks, should always be limited to the face value of the shares.

19.77 The principle that there should be a limitation on the exercise of voting rights by individual shareholders is a wholesome one and should apply to all rural banks. This is necessary in order that the rural bank is not influenced by particular groups of individuals and having regard to the circumstances prevailing in a rural community. This principle is already well-recognised under the Co-operative Law which enunciates the principle of "one man one vote". The Banking Regulation Act, 1949, also limits the exercise of voting rights, at poll, by any person holding shares in a banking company, to one per cent of the total voting rights of all the shareholders of the company. Since the 'rural co-operative banks' will be subject to "one man one vote" principle, no special regulation in this regard is necessary for them. However, for the commercial bank promoting the 'rural subsidiary bank', there is no need to apply this principle. The promoting bank should be allowed to wield the majority of the voting powers and also have majority control in the managing body of the rural bank. But, the voting rights of the other participants to the share capital of the 'rural subsidiary bank' should adhere to the principle of "one man one vote".

19.78 In order that the rural banks acquire adequate strength to subserve public interest and work for the economic development of the area, it is necessary that there should be a ceiling on the dividend payable on the shares of rural banks; the ceiling should be subject to revision by the Reserve Bank. There should also be provision for distribution of patronage dividend on the lines now allowed under the framework of the Co-operative Laws. The membership of a rural bank should not be refused to any person duly qualified therefor, without sufficient reason. This is, however, subject to the promoting bank always retaining its majority participation in the share capital of the 'rural subsidiary bank'. With reference to co-operative banks, there are similar provisions which would apply to 'rural co-operative banks'.

(*h*) *Loans for Subscription to the Share Capital*

19.79 Having regard to the number of rural banks that may have to be formed and the extent of resources that would be required for the purpose, there may have to be some special provisions to enable the investment, to the extent required, in the shares of rural banks. The Reserve Bank of India Act, 1934, now enables that Bank to grant loans to State Governments *inter alia* to subscribe to the share capital of primary agricultural credit societies. This provision should be available also to the contributions which may have to be made to the share capital of the 'rural co-operative banks'. The

Reserve Bank of India Act may be suitably amended to enable that Bank to advance from out of the National Agricultural Credit (Long-term Operations) Fund loans also to any commercial bank for enabling it to subscribe to the share capital of a 'rural subsidiary bank' which it is promoting.

19.80 In the event of any primary agricultural credit society, for whose share capital a State Government has subscribed, deciding to merge or otherwise amalgamate with a 'rural subsidiary bank' set up in the area, pursuant to the provisions on the lines already indicated, the share capital held by the State Government could be transferred to the promoting bank. There should be necessary provisions for this.

(*i*) *Authorised Business*

19.81 In addition to meeting the banking and credit needs of the area, it is necessary for the rural banks to provide for the supply of inputs for agricultural operations, to undertake marketing activities and other similar steps for increasing the productivity. The forms of authorised business for rural banks should not permit them to engage themselves in any such trading activities as principals; but it should be in order for them to undertake such activities on an agency basis. The rural banks may also build and operate warehouses, and provide assistance by way of equipment leasing, as these are necessary for meeting the local needs. The rural banks, in addition to carrying on banking and credit transactions, should also be free to undertake other activities which the Reserve Bank may consider as useful or necessary for the rural banks to undertake.

(*j*) *Places of Business*

19.82 Since the 'area' within which a rural bank has to function will be specified, it will be unnecessary, in our view, to require a rural bank to apply for and obtain from the Reserve Bank a licence for each place of its business within the area of its operation, on the lines now required under section 23 of the Banking Regulation Act, 1949. The area being a comparatively small one, what should be required of the rural bank is only to give prior intimation to the Reserve Bank of the places where it would be carrying on business within the area of its operation.

19.83 Where a rural bank desires alteration in the area specified for its operation, the question of approving such alteration should be left to be determined by the Reserve Bank. The powers to be exercised on behalf of the Reserve Bank in this regard should be delegated to the authorities of the Bank at the branch level.

(*k*) *Norms as to Cash Reserves/Liquid Assets, etc.*

19.84 By reason of their size and the area in which they will function, it may not be necessary for the rural banks to maintain the same percentage

of cash reserves and liquid assets as are required to be maintained by other banks. For instance, as is being done now in the case of co-operative banks, the deposits of 'rural co-operative banks' kept with their district/State co-operative banks, and the deposits maintained by 'rural subsidiary banks' with their promoting banks, could be treated as liquid assets. Again, balances maintained by 'rural co-operative banks' with the district/State co-operative banks with which they are affiliated, and balances maintained by 'rural subsidiary banks' with their promoting banks, not merely those maintained in current account with them, should be deemed to be cash maintained as part of their cash reserves. It should be possible to provide for different standards on these aspects for rural banks. The standards which have to be specified in this regard may be decided by the Reserve Bank.

19.85 In the matter of the application of the other requirements of the banking regulation as well, it should be reasonable to provide for appropriate differentiation in dealing with rural banks having regard to the fact that the rural banks are being set up essentially to satisfy the banking and credit needs of the rural areas and that that object can be achieved only by encouraging the setting up of this class of banks.

(*l*) *Lending and Borrowing Powers*

19.86 The rural bank should be free to lend to non-members resident in its area of operation[1]; to provide for this with reference to 'rural co-operative banks', the Co-operative Societies Acts would require suitable modification. The co-operative banks also suffer from the inhibition of their borrowing powers being linked with their owned funds. Having regard to the number of rural banks and the quantum of work involved, it would be difficult for the Reserve Bank to extend refinancing facilities to the rural banks directly. Hence, it would be necessary to devise an appropriate procedure for the rural banks obtaining refinance from the Reserve Bank. It should be statutorily provided that the Reserve Bank, in granting refinance to a rural bank, may do so through the promoting bank in the case of a 'rural subsidiary bank', and through the concerned district/State co-operative bank in the case of a 'rural co-operative bank'.

(*m*) *Insurance of Deposits and Guarantee of Loans*

19.87 The Deposit Insurance Corporation Act has been amended with a view to extend the insurance scheme to cover also deposits with co-operative banks. But this extension could take effect in any State only on the State Government appropriately amending its Co-operative Law on the lines required by the Deposit Insurance Corporation Act. This difficultiy would vanish when our recommendation for conferring on the Union powers to legislate in respect of all matters pertaining to co-operative credit societies is im-

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1 This could be done by providing for a new class of membership, *viz.*, associate membership.

plemented by a suitable Constitutional amendment. Until then, at least in States where the deposit insurance has been extended to cover deposits with co-operative banks, that insurance should also cover deposits with the 'rural co-operative banks'. As regards 'rural subsidiary banks', the extension of deposit insurance to cover deposits maintained with them should not pose any difficulty and the Deposit Insurance Corporation Act should be suitably amended.

19.88 The Credit Guarantee Scheme managed by the Reserve Bank and the guarantee cover extended by the Credit Guarantee Corporation of India Ltd., for loans and advances to small borrowers and the credit facilities allowed to priority sectors should also be extended to cover loans and advances by rural banks.

(*n*) *Liquidation*

19.89 The Banking Regulation Act, 1949, contains some special provisions for the expeditious winding up of banking companies. The Co-operative Societies Acts also contain provisions having the same aim ; these provisions would be applicable to 'rural co-operative banks'. However, it is necessary that the legislation relating to 'rural subsidiary banks' should provide for an expeditious and inexpensive procedure for the winding up of a 'rural subsidiary bank' when circumstances so warrant.

(*o*) *Special Concessions, Special Procedure for Recovery of Loans and Advances, etc.*

19.90 The Income-tax Act exempts from tax the income of co-operative credit societies arising on account of their banking and credit transactions with their members. Income arising on account of other activities of such societies is exempted upto a limit of Rs. 20,000[1]. This fiscal concession, which would be available to 'rural co-operative banks', should be enlarged to cover also income arising on account of banking and credit transactions of 'rural co-operative banks' with non-members. In our view, it is necessary that such concession should also be allowed to 'rural subsidiary banks' in regard to their liability to pay tax on their income. The tax concessions available to dividends on the units of the Unit Trust of India should also be available in respect of dividends on the shares held in rural banks.

19.91 The exemptions from payment of stamp duty and registration charges would be available to 'rural co-operative banks'; State Governments may consider the granting of similar exemptions in respect of transactions with 'rural subsidiary banks'. The provisions which facilitate the creation of charges on borrowers' assets and the giving of priority for the claims of the banks over such assets would now be available only to 'rural co-operative

[1] Income arising by way of interest or dividends derived by such society from its investments with any other co-operative society is also wholly exempt from income-tax.

banks'; State Governments may consider the making of appropriate provisions which would provide such facilities also to 'rural subsidiary banks'.

19.92 The Co-operative Societies Acts have special provisions which provide for a simple procedure for reconciling the claims of co-operatives and their members *inter se* ; the Acts also provide for expeditious recovery of loans and advances granted by co-operative societies. These provisions would enure to the benefit of 'rural co-operative banks'. The question of making similar provisions which would be applicable to 'rural subsidiary banks' should be examined.

(p) Jurisdiction of Court

19.93 Under the Companies Act, 1956, the approval of court is necessary in respect of many matters and usually it is the High Court that has to be approached. In the case of the co-operative societies, the Registrar has the necessary powers. The Registrar would continue to exercise such powers also in relation to 'rural co-operative banks'. It is necessary that with reference to 'rural subsidiary banks', either the District Court is specified as the court that would have jurisdiction to decide disputes concerning the rural banks, or alternatively, some provisions on the lines found with reference to co-operative societies may be considered for adoption.

(iv) 'Other Banks'

19.94 The 'other banks' are companies authorised to accept chequeable deposits. For this purpose, 'company' means any company as defined in section 3 of the Companies Act, 1956, and includes a foreign company within the meaning of section 591 of that Act. Such banks are now either scheduled or non-scheduled and they are either licensed to carry on banking business or not yet licensed (non-licensed).

Scheduled and Non-Scheduled Banks

19.95 The present basis for classifying banks into scheduled and non-scheduled has lost merit. Under section 42(6) of the Reserve Bank of India Act, 1934, a banking institution could claim inclusion in the Schedule provided

(*a*) it satisfies the Reserve Bank that its affairs are not being conducted in a manner detrimental to the interests of its depositors; and

(*b*) its paid-up capital and reserves have an aggregate value of not less than Rs. 5 lakhs.

Since all the banks come within the swep of the Banking Regulation Act, 1949, condition (*a*) applies to all of them pursuant to the provisions of that Act. Even with reference to the capital requirements, as set out in condition (*b*), after the Banking Companies (Amendment) Act, 1962, all banking companies commencing business after that date are required to have a paid-up capital

of not less than Rs. 5 lakhs. The sum of Rs. 5 lakhs as the aggregate value of the paid-up capital and reserves of a banking company does not have much significance. Moreover, the distinction now serves to identify, of the 'other banks', only a few banks. With reference to co-operative banks, the question of capital structure may assume some significance; but, any distinction based essentially on the size of the capital of banks does not commend itself to us. In the revised scheme of banking regulation, we are recommending in this chapter, there is no need for such a distinction between banks[1].

Licensed and Non-Licensed 'Other Banks'

19.96 The position of banking companies which have applied for a licence on or before September 16, 1949, and, pending a decision on their application, are carrying on banking business so far, is anomalous. As on June 30, 1971, they number only 16 and an expeditious decision on the applications of such banks, which have been pending for over two decades, would remove this anomaly.

Forms of Business in Which Banks May Engage

19.97 The principle that banking should not be combined with trading has been recognised in India since 1936.[2] The provisions have also been substantially the same since 1936. The forms of business which banks could undertake require to be reviewed in the light of the developments in other countries and the requirements of our country today.

19.98 For instance, banks in other countries buy machinery and other equipment and lease them out to their constituents. This form of business helps the unemployed technical persons of small means to start appropriate ventures with such assistance from banks. This also helps in the development and/or expansion of existing concerns. In the conditions prevailing in our country, it is necessary that banks should be allowed to undertake the business of buying machinery and other equipments and leasing them. In order to allow banks to undertake other forms of business (as a result of the reviews that may be undertaken from time to time), there should be a statutory provision providing that they could also undertake any form of business which the Reserve Bank may notify with the prior approval of the Central Government. The Reserve Bank may undertake such reviews from time to time.

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[1] In the earlier chapter we have made some recommendations regarding the scheduled and non-scheduled banks, which will be relevant so long as the distinction between the two classes of banks remains.

[2] Section 277F of the Indian Companies Act, 1913, introduced in 1936, and sections 6 and 8 of the Banking Regulation Act, 1949.

Formation of Subsidiaries

19.99 Banking regulation specifies the purposes for which banks can form subsidiaries. The purposes so appoved are now found in section 19 of the Banking Regulation Act, 1949. The present provision is unduly restrictive since

(*a*) even the forms of business which banks could directly undertake, *e.g.*, financing of hire-purchase transactions, are not allowed to the subsidiary of a bank ; and

(*b*) the principle that banking should be segregated from manufacturing or trading activities is not violated in relation to subsidiaries of banks which do not undertake banking business.

19.100 In the result, section 19 of the Banking Regulation Act, 1949, may be amended to provide that banks may form subsidiaries for

(*a*) carrying on business which banks are permitted to do under section 6 of the Banking Regulation Act, 1949 ; and

(*b*) any purpose considered by the Reserve Bank in consultation with the Central Government as conducive to the spread of banking or otherwise useful or necessary to be undertaken by banks in public interest.

There should also be a statutory clarification that in the aforesaid circumstances the national banks are allowed to form subsidiaries.

Prohibition of Advances to Directors, etc.

19.101 There are now certain difficulties noticed with reference to the application of the principle underlying section 20 of the Banking Regulation Act, 1949, which prohibits advances to directors of banks. The principle is wholesome and is a desirable feature of banking regulation. However, if applied to directors of public sector undertakings who are nominated by Government to the boards of the national banks, it causes avoidable difficulty for the national banks entering into transactions with such public sector undertakings. Now, such situations are being met by the issue of separate exempting notifications to provide for each case. It is desirable to have a general exempting provision for such cases by adding a proviso to section 20. However, in considering the proposals for granting credit facilities to such public sector undertakings, the concerned directors should not vote or participate in the discussion in the boards of the national banks. The Regulations applicable to the national banks usually do, and if not they should, provide for this.

Maintenance of Liquid Assets

19.102 For the monetary measures to be sufficiently effective, there should be a statutory provision which would enable the Reserve Bank to

vary the requirements as to the maintenance of liquid assets within a specified range. Banking regulation in other countries provides for a range within which the cash reserves *and* other liquid assets required to be maintained by banks can be raised or revised by the monetary authority. While proviso to section 42(1) of the Reserve Bank of India Act, 1934, enables the cash reserves to be maintained by the scheduled banks to be varied within a range of 3 per cent to 15 per cent of the total of the demand and time liabilities, there is no such corresponding provision in India with reference to the maintenance of other liquid assets. Raising the requirements as to the balances to be kept with the Reserve Bank is not always satisfactory since the banks do not earn any interest on such balances unlike in the case of certain other liquid assets.

19.103 Banks are now required to maintain a liquidity ratio of 28 per cent under sections 18 and 24 of the Banking Regulation Act, 1949, read with section 42(1) of the Reserve Bank of India Act, 1934. But pursuant to separate advices issued by the Reserve Bank, the liquidity ratio for the scheduled commercial banks has been raised from 28 per cent to 31 per cent[1]. The resort to such separate advices has been necessitated since the legal provisions do not now provide for the monetary authority raising or revising the percentage of liquid assets to be maintained by banks other than with reference to the balances they keep with the Reserve Bank.

19.104 On the model of the proviso to section 42 (1) of the Reserve Bank of India Act, 1934, a proviso should be added to the sections providing for the maintenance of other liquid assets, specifying a range within which the requirements as to other liquid assets may be varied. The Central Government in consultation with the Reserve Bank may decide on the particular range within which the Reserve Bank may be enabled to raise or revise the requirements as to maintenance of liquid assets.

Secret Reserves

19.105 Banks are now permitted to keep what are called 'secret reserves' or 'inner reserves'. The main reason for their maintenance is the assumption that such reserves will act as cushion for meeting any unforeseen demands. However, the ability of secret reserves to meet unforeseen demand remains to be tested. The present trend abroad is to discontinue the maintenance of such secret reserves.

19.106 Several authorities in the U.K. have gone into the question whether or not it is desirable for banks to maintain secret reserves. While the majority of the Jenkins Committee did not favour banks being compelled

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1 Reserve Bank Governor's circular letters —
(i) DBOD. No. Sch. 194/C. 96-70 dated February 5, 1970;
(ii) DBOD. No. Sch. 264/C. 96-70 dated February 18, 1970; and
(iii) DBOD. No. Sch. 1241/C. 96-70 dated August 11, 1970.

to disclose all their assets and liabilities in their published accounts, they conceded nevertheless that the exemptions enjoyed by banks may be regarded by many as an anachronism. The minority held that the case for the banks disclosing their real profits is extremely strong. The Prices and Incomes Board on Bank Charges (1967) recommended "full disclosure as soon as it is practicable." The Companies Act of 1967 of the U.K. left the matter to the discretion of the Board of Trade. The Monopolies Commission of the U.K. expressed the view that "because the banks have been permitted to conceal their true profits and their true reserves, they have escaped the stimulus to efficiency and competitiveness that informed comparison of performances and profitability might have been expected to produce". Now, the clearing banks of the U.K. have voluntarily come forward to make and are making, full disclosure.

19.107 In Canada, the Porter Commission had felt that there is "no compelling case against the disclosure". In the United States, the Advisory Committee on Banking to the Controller of the Currency (known as the Saxson Committee) recommended, and it is said that many American banks are making, full disclosure. The Study Group has also received expert opinion[1] to the effect that it is not necessary or desirable that banks should be permitted not to disclose any of their assets and liabilities in their published accounts.

19.108 The reason that secret reserves may be required as a cushion to meet unforeseen contingencies does not apply to the national banks. It is also not desirable to adopt a different position with reference to the 'other banks' and the co-operative banks, since that course would affect any meaningful comparison of the profitability and working of all these banks.

19.109 In the result, the provisions relating to the balance sheet and profit and loss account of banks may be modified to ensure full disclosure by banks of all their assets and liabilities. Consequentially, section 34A of the Banking Regulation Act, 1949, may have to be repealed. Having regard to the purpose for which secret reserves are maintained, such reserves of banks, existing on the date on which the provisions providing for full disclosure become effective, should be required to be transferred to the banks' general reserves. In order to ensure that profits that would have gone to reserves are not utilised to meet other needs, there should also be a provision requiring banks to transfer to their general reserves (which are to be disclosed) a larger percentage (than the present 20 per cent) of their net profits. The exact percentage to be specified may be laid down by the Central Government in consultation with the Reserve Bank. The question of the maintenance of adequate reserves by banks has been considered in the chapter on Costs and Capital Structure of Banks.

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1 Reply of Mr. Carl W. Funk in answers to question No. 2.3.1 of the Study Groups' questionnaire (vide Appendix IV to the Study Group's report).

(*B*) *Concerns Accepting Non-Chequeable Deposits for Lending or Investment, i.e., Financing Institutions*

19.110 Prior to 1949, companies accepting non-chequeable deposits (withdrawable by cheque, draft or order), as their principal business, were regulated as banking companies under the provisions of the Indian Companies Act, 1913. But after the 1949 enactment, companies accepting deposits from the public for the purpose of lending or investment, irrespective of the mode of withdrawal of the deposits and independent of the question whether or not it was their principal business, were brought within the scope of banking regulation. The name under which the concern carried on such business, that is, whether it used as part of its name the word 'bank', 'banker' or 'banking', is not material for deciding the nature of its business.

19.111 Nevertheless, the provision of the Banking Regulation Act, 1949, has not been effectively applied to companies accepting deposits from the public for their business of lending or investment. This is mainly due to the following reasons. Firstly, many companies which were accepting deposits and carrying on lending (*e.g.*, the Nidhis of Madras and Loan Companies of Bengal) deleted from their names the word 'bank', 'banker' or 'banking' after the Indian Companies (Second Amendment) Act, 1942, in order to evade the provisions of Part X-A of the Indian Companies Act, 1913. Secondly, though the Reserve Bank advised companies which, to its knowledge, were accepting deposits from the public and were also having lending or investment as part of their regular business, either to eschew the acceptance of deposits from the public or not to have lending or investment as part of their regular business, no special efforts were made to bring within the scheme of regulation the large number of companies which were in fact accepting non-chequeable deposits for lending or investment, *e.g.*, loan companies, investment companies and hire-purchase finance companies.

19.112 Thirdly, the provisions of Chapter III-B of the Reserve Bank of India Act, 1934 (introduced by the Banking Laws (Miscellaneous Provisions Act, 1963) created some ambiguity since it *inter alia* dealt with the business of acceptance of deposits by companies from the public for lending or investment (in other words, a class of banking companies) while in express terms the provisions of that chapter were made inapplicable to banking companies. Acceptance of deposits (non-chequeable) by loan companies, investment companies and hire-purchase finance companies really comes within the sweep of the regulation as set out in the Banking Regulation Act, 1949, having regard to the definition of 'banking' given in that Act and the objectives of banking regulation. There is no reason to deal with such financing institutions accepting non-chequeable deposits from the public as non-banking companies. Evidently, the 1963 legislation was not aimed to restrict the scope of the definition of 'banking'. However, the provisions of Chapter III-B which enable the Reserve Bank to control the acceptance of deposits, *inter*

alia, by financing institutions proceed on the assumption that they are non-banking concerns and it is the provisions of Chapter III-B, and not the scheme of banking regulation (as set out in the 1949 legislation) that have been applied on administrative grounds to regulate the acceptance of deposits (non-chequeable) by loan companies, investment companies and hire-purchase finance companies.

19.113 Concerns accepting non-chequeable deposits for the purpose of lending or investment, that is, financing institutions, should really be regulated as part of a scheme of banking legislation. However, there may have to be appropriate differences in the nature of the regulation to which concerns taking chequeable deposits and concerns accepting non-chequeable deposits for lending or investment, *i.e.*, banks and financing institutions, are subjected. Such classification is reasonable and necessary. It may be necessary also to differentiate between the different classes of financing institutions in the matter of regulation. The directives of the Reserve Bank issued under Chapter III-B of the Reserve Bank of India Act, 1934, with reference to financing institutions also make such classification.

19.114 Of the existing financial intermediaries, we have *inter alia* considered the role of Nidhis and Bangalore type Finance 'Corporations', the Hire-Purchase Companies, and the Investment Companies in the chapter on Non-Banking[1] Financial Intermediaries. They generally accept deposits from the public, and hence are banking concerns. *A fortiori* they should be brought within the framework of the banking regulation. We have also recommended, in Chapter 16, the setting up of specialised institutions for providing housing finance. Since such housing finance institutions have to accept non-chequeable deposits from the public for mobilising the necessary resources, the regulatory provisions relating to them may become a part of the scheme of banking regulation. The scheme of regulation that should apply to financing institutions may be drawn up in the light of our recommendations made with reference to such financial intermediaries in Chapters 16 and 17.

Banking and Moneylending

19.115 While considering the question of applying banking regulation to firms and individuals, it becomes necessary to distinguish between moneylenders and those who may be considerd as doing banking. A clear-cut distinction between 'banking' and 'moneylending' is necessary since the present Constitutional position is that 'banking' is a Union subject, while 'moneylending' is the responsibility of the States. Such a distinction may have to be

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1 In the chapter on Non-Banking Financial Intermediaries, the Commission has considered the role of financial intermediaries all of whom may not be accepting deposits from the public. Insofar as such intermediaries accept deposits from the public, they are really banking financial intermediaries and should come within the scope of banking regulation.

made even when (as we recommended earlier) the jurisdiction to regulate the carrying on of the business of 'banking' and 'moneylending' rests with the same authority.

19.116 In Itty Kurian and another *v.* Union of India and others,[1] the Kerala High Court has relied on the finding of the Indian Central Banking Enquiry Committee that the acceptance of deposits is one of the features that distinguish a banker from a moneylender. In Kadiresan Chettiar v. Ramanathan Chettiar[2], the Madras High Court has held that while a moneylender lends his own money, a banker lends the moneys of his customers. The Study Group has indicated that the distinction between a person doing banking and a person doing moneylending really rests on the presence or absence, as part of such person's business, of the acceptance of deposits from the public. While a person doing banking relies on the deposits accepted by him from the public, wholly or partially, for carrying on his lending activity, the person doing moneylending does not seek or accept deposits from the public for his lending. As the definition of 'banking' since 1936 has essentially centred round the deposit taking function, to distinguish banking from moneylending we have per force to rely on the question whether or not the person accepts deposits from the public. The distinction based on the deposit taking function is the deciding factor.

Banking and 'Indigenous Bankers'

19.117 There is some overlapping of the concepts of 'banking' and 'moneylending' when we refer to 'indigenous bankers'. Indigenous bankers, from times of yore, have been dealing in hundis and some of them do accept deposits. Constitutionally, those who merely deal in hundis now come in for consideration as a class of 'moneylenders'. The question of regulating such indigenous bankers, that is, those who do not carry on 'banking', *e.g.*, Multanis, is considered in the chapter on 'Indigenous Bankers'. But, in this chapter, we deal with the question of regulating firms and individuals who do banking (*ie.*, those accepting non-chequeable deposits from the public).

Private Banking

19.118 By 'private banking' we refer to the business of accepting non-chequeable deposits from the public for the purpose of lending or investment. In this group would come the shroffs taking non-chequeable deposits, Finance 'corporations' like those which are established in Bangalore (considered in the chapter on Non-Banking Financial Intermediaries) and other firms and individuals who accept deposits from the public and engage in lending or investment activities.

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[1] A.I.R. 1962 Kerala 267.
[2] A.I.R. 1927 Madras 478.

19.119 While the States have enacted moneylending legislation, there is no legislation as regards private bankers. While those who do business with their own resources are brought under regulation (though it may not be very effective now), it is surprising that those who do business wholly or partially with resources obtained by way of deposits from the public are not subjected to regulation so long as they undertake such business without incorporating the undertakings.[1]

19.120 The Select Committees which went into the Banking Companies Bill were inclined to extend the scope of banking regulation to cover also individuals and firms carrying on banking business; but, Constitutional objections came in their way. The 1946 Select Committee suggested that the question should be further examined with a view to introducing subsequent legislation extending, as far as possible, the provisions of the Bill to other banking concerns. The Constituent Assembly having noted the Constitutional difficulty pointed out by these two Select Committees, expanded the scope of the Entry in the Union List with reference to 'banking'. While under the Government of India Act, 1935, the Entry was :

> "Banking, that is to say, the conduct of banking business by corporations, other than corporations owned or controlled by a federated State and carrying on business only within that State,"

that under our present Constitution is simply 'banking.' Hence, there is no legal impediment and the Union should legislate to regulate private banking.

19.121 While going into the features of the regulation that should apply, the question arises, namely, whether or not such private bankers should be required to incorporate their undertakings. While incorporation of such undertakings is highly desirable, this need not be enforced by compulsion. Alternatively, there could be appropriate differentiation between corporate bodies and firms and individuals carrying on private banking. In particular, in prescribing the conditions to qualify as eligible concerns for any concession or inducement, incorporation could be made one of the conditions. In the chapter on Non-Banking Financial Intermediaries we have recommended that incorporation should be one of the conditions for an undertaking to qualify as an 'approved institution'.

19.122 Subject to the above, all the provisions that apply to corporate financial institutions should also apply to firms and individuals doing private banking, with necessary modifications for the difference in their legal status. In this connection, the Study Group has referred to the provisions of the Pennsylvania Banking Code of 1965. As provided for in that Code, a private banker should obtain a certificate of authorisation empowering him to continue in the business. The application for obtaining such a certificate should

[1] The provisions of the Moneylending legislation are applied, in some States, to some firms and individuals doing private banking on the asumption that they are a class of money lenders

contain sufficient information. It should be a pre-condition that a private banker should maintain a specified percentage of liquid assets, and also possess owned funds, as may be required to be maintained or possessed, by Loaning Concerns considered by us in the chapter on Non-Banking Financial Intermediaries. There should also be provision for segregation of 'banking' business from the other business of the firm or individual. The assets and liabilities of the banking firm should be required to be indicated separately from the other assets or liabilities of the private banker. The assets of the Banking firm should be declared as a first charge to meet the demands of its depositors. Any change in the constitution of a firm should be approved by the concerned authorities. There should also be special provisions for facilitating either the conversion of private banking undertakings into corporate isntitutions, or their dissolution, on the lines of the provisions of the Pennsylvania Banking Code. Provisions on those lines should be considered subject to necessary modifications for regulating private banking in our country.

(*C*) *Concerns Accepting Non-Chequeable Deposits for Financing Their Own Business Such as Manufacture or Trade (i.e., Deposit Receiving Institutions)*

19.123 As already stated, acceptance of such deposits is even now regulated pursuant to the provisions contained in Chapter III-B of the Reserve Bank of India Act, 1934. With reference to deposit receiving institutions, it is only their deposit-taking function that needs to be regulated by the authorities administering banking regulation. The objectives of the regulation would be met if the regulation deals with the terms (including the terms relating to the period of repayment, payment of interest, etc.) subject to which deposits could be accepted, and contains necessary provisions to ensure that the borrowing concerns have adequate repaying capacity. Having regard to public interest, the provisions may also enable authorities to restrict, regulate or prohibit the acceptance of deposits. The regulating authorities should also be given the necessary powers to enforce the observance of the regulations by the deposit receiving institutions by inspection and other measures. But the licensing of such institutions should not be necessary for the purpose of banking regulation.

Licensing/Regulating Authorities

19.124 Regulation loses its significance in the absence of an efficient administrative machinery for its implementation. Hence, it is necessary to have an adequate machinery for administering the scheme of banking regulation. The question is whether the administrative authority for all the banking undertakings should or should not necessarily be the Reserve Bank. The Study Group has felt that the responsibility of the Reserve Bank over banks, its own associate institutions, and its other responsibilities would substantially engage the attention of the Reserve Bank. The Study Group has also expressed the view that banking regulation has not been effectively applied to financing institutions which are 'companies' though the Banking

Regulaton Act, 1949, extends to them. Having regard to the number of financing institutions and deposit receiving institutions that would come in for control, the Study Group has felt that the machinery for regulating them should be sufficiently broad-based and hence it has recommended that while the jurisdiction to implement the regulation for banks may have to be with the Reserve Bank of India, the administration of the regulation provided for the other financing institutions and deposit receiving institutions should be left to a separate decentralised agency which should work in close association with the Reserve Bank.

19.125 The Study Group has considered that it is desirable to have separate licensing/regulating authorities entrusted with statutory powers to administer the provisions of the banking regulation applicable to financing institutions and deposit receiving institutions, and that such authorities may be set up at the State level with an apex body at the all-India level. It has observed that while the authorities at the State level should be invested with statutory powers to deal with financing institutions and deposit receiving institutions, the apex body should act as a supervisory authority over the State level authorities, that the apex body should mainly concern itself with questions of policy and should be the authority to take decisions on matters of all-India importance, and that the State level authorities should deal with the administration of the regulatory/licensing provisions of the banking regulation. The Study Group has recommended that this arrangement would be conducive to the effective implementation of the banking regulation with reference to such forms of banking. The Registrars of Companies at the State level and the Company Law Board at the Centre are cited as an analogy. In this scheme, the Reserve Bank has to be actively associated with the functioning of, and it may also have to take the initiative for setting up, such machinery which would deal with all types of banking concerns other than banks. There should also be co-ordination between the Reserve Bank and such a body for the effective implementation of the scheme of banking regulation. In our view, the administration of banking regulation over financing institutions and deposit receiving institutions may be either left to such independent agency which should be closely associated with the Reserve Bank, or the Reserve Bank itself may be vested with such responsibility which it could discharge, if necessary, departmentally and by opening its branches in all the States.

Banking Code

19.126 It is clear that banking regulation will have to deal with different categories of institutions which differ widely in their set-up. In countries where there are comprehensive schemes of banking regulation, the regulations are found in one single code or enactment which deals with the different categories of banking undertakings with appropriate modifications to provide for their differences *inter se.* The alternative is to make separate enact-

ments with reference to the different categories of undertakings doing banking. The question is which would be most effective from the stand point of banking development and public interest. When proposals for a separate banking legislation were formulated in 1939, the aim was to have a comprehensive Banking Act that would cover the carrying on of banking business by all kinds of undertakings including firms and individuals. Even now, the preamble to the Banking Regulation Act, 1949, states that its aim is to consolidate and amend the law relating to banking, though it does not contain any comprehensive scheme of banking legislation.

19.127 It is desirable that the regulation of the different banking undertakings is considered as parts of one comprehensive scheme. That would ensure that there is a proper perspective over the control that is exercised in regard to the different categories of banking institutions having regard to certain common objectives, such as, the protection of the interests of the depositors, the safeguarding of public interest and the effective implementation of the monetary policy and credit policy. For this, there should be a comprehensive banking code. Similar codes have been framed in other countries and they are highly useful. We recommend a comprehensive banking code suited to the conditions of India and covering all types of deposit-taking institutions. The banking code can appropriately differentiate between the different categories of persons doing one or the other form of banking. Chart 19.1 gives a perspective of the concerns that carry on one or the other forms of banking business, and which would be regulated under the code.

19.128 The statutory provisions applicable to the national banks could become a part, or parts, of the banking code. The manner in which this could be done is indicated in the chapter on National Banks. Chapter III-B of the Reserve Bank of India Act, 1934, may be repealed and the provisions to be made with reference to financing institutions and deposit receiving institutions may be placed as separate parts of the code. The provisions necessary for regulating firms and individuals doing private banking could be made a part of the code. The provisions of the Banking Regulation Act, 1949, in relation to their application to banks could be retained in the code, subject to necessary modifications. The schemes for governing the rural banks and the housing finance institutions, which we are recommending, could find appropriate places as parts of the banking code. The suggestion for a comprehensive banking code should not, however, delay the promotion of legislation necessary for banking regulation. If necessary, legislation can deal separately with the different categories of banking institutions with the ultimate aim of fitting in all the pieces of legislation for the regulation of banking into one comprehensive banking code.

CHAPTER 20

NATIONAL BANKS

20.1 The Report of the All-India Rural Credit Survey Committee, 1954, recommended the creation of "one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country". This resulted in the acquisition of the undertaking of the Imperial Bank of India (Imperial Bank) by the State Bank of India (State Bank) established in 1955. After the re-organisation of the erstwhile Part 'B' States, and during the period 1956 to 1959, the undertakings of the former Part 'B' State-associated banks were taken over and re-organised as Subsidiary banks of the State Bank of India (Subsidiaries) instead of merging them with the State Bank. The creation of the Subsidiaries was in furtherance of the recommendations in the Report of the All-India Rural Credit Survey Committee, though not in the manner envisaged by it.[1] In fulfilment of certain social and economic objectives, the undertakings of the 14 major Indian commercial banks ('new banks') were taken over in July 1969. The Central Government holds the entire capital of the 'new banks'. The Reserve Bank, a wholly owned statutory corporation of the Central Government, holds largely the capital of the State Bank ; the State Bank, in turn, holds largely or wholly the capital of the Subsidiaries. The State Bank, the Subsidiaries and the 'new banks' may be termed as 'national banks' in order to distinguish these banks from those banks in whose capital there is substantial participation by the public and from the banks having State Governments' participation in capital.

20.2 The national banks accounted for nearly 83.7 per cent of the total deposits of the commercial banking system of the country, as on July 2, 1971. In the development of banking, the national banks are to play a dominant role. In view of their special position, the Study Group reviewing legislation affecting banking (referred to in the rest of this chapter as the Study Group or the Group) has made, at the instance of the Commission, a special study of the legal provisions relating to the constitution, functions, powers and duties of the national banks. In Chapter 4 of its Report on Banking

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[1] The Report of the All-India Rural Credit Survey Committee, 1954, conceived "the enlargement of the Imperial Bank of India by amalgamation with it of the State associated banks". However, the State associated banks were set up as distinct entities, and, instead of being amalgamated with the State Bank, were made its subsidiaries.

Legislation, the Study Group has set out the result of its study and given its recommendations. This chapter is largely based on those recommendations.

20.3 After tracing the historical background resulting in the establishment of these banks, the Study Group has opined that the basic aims behind the acquisition of the undertakings of the Presidency Banks and the formation of the Imperial Bank, the acquisition of the undertaking of the Imperial Bank by the State Bank, the acquisition of the undertakings of the Part 'B' State associated banks by the Subsidiaries, and the acquisition of the undertakings of the 14 major commercial banks by the 'new banks' were not the same, and that this naturally had led to the adoption of different schemes of regulation for governing the Imperial Bank, the State Bank, the Subsidiaries and the 'new banks'. Though there are similar provisions with reference to many matters, the constitution, functions, powers and duties of the national banks are not, in essential features, uniform ; the relevant provisions of the State Bank Act are not on the same lines as those applicable to the Subsidiaries, and the pattern of both differs from that of the 'new banks'. The Study Group has felt that such differences in their schemes could be explained in the background of historical factors, and there is not much justification for continuing these differences indefinitely. Similarities in the nature of legal provisions governing the national banks are to be expected ; but the provisions which differentiate them *inter se* need to be examined. If the national banks are to have a common programme of functions and responsibilities in the development of the banking/credit system of the country, it is necessary that they are governed by a uniform scheme. In evolving such a uniform scheme, such features, as have more a historical rather than any present day value, may be discarded. However, such a uniform scheme may have to be evolved gradually and not brought about suddenly.

20.4 While the aim should be to eliminate the differences in the patterns of the regulation that now govern the State Bank, the Subsidiaries and the 'new banks', this may have to be achieved in course of time. The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Scheme framed under section 9 of that Act have come into force fairly recently. The scheme governing the State Bank has been in operation since 1955 and that applicable to the Subsidiaries since 1959. These latter two schemes have worked well. Considerable experience has been gained on their working. In fact, the Study Group has felt that a number of provisions which are now applicable to the State Bank merit extension to the other national banks. Hence, we have to proceed with some caution in discarding any feature which has stood the test of time in favour of any step which is not fully tried and found successful. In this view, the ultimate aim should be to evolve a uniform scheme to govern all the national banks after sufficient experience is gained in the scheme of management framed under the 'new banks' Act.

20.5 The provisions applicable to the national banks could be considered appropriately under the following heads :

(1) Ownership pattern ;
(2) Organisational set-up ;
(3) Forms of authorised business ;
(4) Accounts, audit, profit, reserves, etc. ;
(5) Powers of Central Government ; and
(6) Other provisions.

(1) Ownership Pattern

20.6 Since the entire paid-up capital of the 'new banks' stands allotted to the Central Government, there is no necessity for the division of their capital into shares, as in the case of the State Bank and the Subsidiaries. However, with reference to the increasing of their capital, there is a ceiling (Rs. 15 crores) for the paid-up capital of any of the 'new banks'. There is no such ceiling specified with reference to the State Bank and the Subsidiaries. The capital requirements of a banking undertaking are sought to be determined in other countries, especially in the U.S.A., on the basis of certain accepted criteria. This aspect has been discussed in greater detail, and certain suggestions have been made, in the chapter on Costs and Capital Structure of Banks. Any rigid provision specifying a ceiling as regards the capital requirements of the national banks would make the application of such criteria difficult. Hence, a statutory provision may be made for the capital of any national bank being revised by it in consultation with the Reserve Bank and with the approval of the Central Government.

20.7 The ownership structure of the State Bank and that of the Subsidiaries differ from that of the 'new banks'. A substantial portion of the share capital of the State Bank is held by the Reserve Bank which is a wholly owned corporation of the Central Government. The State Bank, in turn, holds a substantial portion of the share capital of four, and the entire capital of the other three Subsidiaries. On the other hand, with reference to the 'new banks', their entire capital is held by the Central Government. In the case of the 'new banks', where the Central Government holds the capital, their annual accounts are placed before Parliament for consideration. In the case of the State Bank and the Subsidiaries, their respective general bodies consider their annual accounts ; however, in the three Subsidiaries where the State Bank holds their entire capital, the provision relating to the consideration of the annual accounts by a general body does not apply. These raise certain basic questions, *viz.*,

(*i*) Whether the Central Government should hold directly, or through an intermediary, *viz.*, the Reserve Bank and/or State Bank, the capital of the national banks ?

(*ii*) Whether the Central Government or the Reserve Bank/State Bank (as the case may be) should hold the capital of the national banks exclusively or could the capital be made transferable, generally or to certain sections of the public ?

(*iii*) Should there be Parliamentary consideration of the annual accounts and the working of the national banks ?

Government's Holding of Capital

20.8 The Study Group has recommended that the Central Government may hold directly the capital of all the national banks. However, the Study Group's recommendation is that with reference to the Subsidiaries, their links with the State Bank require review only in the event of the State Bank's responsibility towards the Subsidiaries being considered as no longer necessary. In support of its conclusion that the Reserve Bank should not be a link between the Central Government and the national banks, as regards their ownership structure, the Study Group has indicated that in principle the Reserve Bank's role as the supervising authority *inter alia* over the national banks will be compromised if that bank is shown as holding the capital of the national banks.

20.9 However, the Study Group has also noted that the present arrangement[1] whereby the Reserve Bank holds the substantial portion of the capital of the State Bank seems to have worked satisfactorily so far. As pointed out earlier, there is need to gain sufficient experience in the working of the management Scheme prescribed for the 'new banks'. Thereafter, Government may review all the relevant provisions and prescribe a uniform scheme of ownership for all the national banks.

Outside Participation in the Capital of the State Bank/Subsidiaries

20.10 Outside participation in the capital of some of the national banks, *viz.*, the State Bank and the Subsidiaries, has necessitated provisions for :

(*i*) a general body of shareholders ;

(*ii*) the outside shareholders, depending upon the extent of their shareholdings, electing a few directors from amongst themselves ;

(*iii*) declaration of dividend ; and

(*iv*) annual general meetings of the shareholders before whom the accounts are placed.

By reason of the absence of a general body of shareholders (since the entire paid-up capital is vested in the Central Government), in the case of the 'new

[1] In the chapter on the Restructuring of the Banking System, we have made our recommendations on the restructuring of the national banks and to implement them, the provisions of the enactments governing the national banks would require to be suitably modified.

banks' the report containing the annual accounts and the statement of affairs of these banks is placed before Parliament. The Study Group has felt that the consideration by the general body of the State Bank and the Subsidiaries of the affairs of such banks could not be as effective as placing them before Parliament, especially due to the substantial percentage of share holding in them by the Reserve Bank/State Bank. The Study Group has also said that the principle underlying the provisions relating to the composition of the boards of the 'new banks' is that their boards should subserve public interest and this may not go well with the idea of giving representation (by a system of proportional representation) to minority shareholders based on the strength of capital holding. The provision for the declaration of a '*dividend*' by the boards of directors of the State Bank and the Subsidiaries, unlike in the case of the 'new banks' where the *surplus* remaining after making usual and necessary provisions is transferred to the Central Government, is due to the presence of outside shareholders. That is the reason for the provision in the State Bank and the Subsidiary Banks Acts for an annual general body meeting and the placing of annual accounts before the 'shareholders', a feature not found with reference to the 'new banks'. In this view, the Study Group has felt that on balance it would be in public interest if the Central Government acquires under law the shares held by persons other than the Reserve Bank and the State Bank respectively in the capital of the State Bank and of the Subsidiaries.

20.11 While there is considerable force behind the aforesaid arguments, we have also to give weight to the fact that the ownership structure of the State Bank and the Subsidiaries has lasted for a considerable period, and that of the 'new banks' has been recently introduced and it may be premature to decide now on its usefulness and efficacy. Hence, when Government reviews the schemes governing the national banks, as earlier recommended, the question whether or not the outside shareholdings in the capital of the State Bank and the Subsidiaries should continue may be taken up and decided. Until then, the placing of the annual accounts and of the report on the working of the State Bank and the Subsidiaries may continue to be made before their general bodies.

(2) Organisational Set-up

20.12 The set-up of the national banks may be examined with reference to :

(*i*) the authority or authorities entrusted with the powers to carry on the affairs of the banks ; and

(*ii*) the organisational structure at their central *vis-a-vis* regional levels.

Generally, the organisational framework of the State Bank is appropriate for a sizeable all-India banking institution, while that of the 'new banks' is not.

A. Organisation at the Central Level

(a) Board of Directors

(i) Their Powers and Duties

20.13 The provision, which requires the boards of the State Bank and the Subsidiaries to act "on business principles, regard being had to public interest", should also apply to the 'new banks', as all the national banks should have the same objectives.

20.14 The powers now vested in the chief executives of the national banks are not similar. In the State Bank, the Chairman of its Board of Directors is also its chief executive. In the 'new banks', the offices of their chairman and chief executive are provided for separately; but, at present the same individual holds both the offices. The General Manager, the chief executive of a Subsidiary, is not a member of its Board. The provisions regarding the persons who should head the boards of directors of the national banks and those regarding the persons who should be entrusted with powers to act as their chief executives should be uniform in pattern for all the national banks.

20.15 The Study Group has recommended that the same person should not occupy the office of the Chairman of the board of a national bank and also be its chief executive. The Study Group has felt that this would facilitate the objective appraisal by the board of the performance of the administration headed by the chief executive and would enable the Chairman to bestow his attention mainly to questions of policy and not to details of administration. The Study Group has also recommended the making of appropriate provisions in the enactments applicable to the national banks to enable the appointment of, and payment of remuneration to, the Chairman/Vice-Chairman on a whole-time or part-time basis.

20.16 Prior to the introduction of the Social Control over banking companies, the office of the Chairman of the board and that of the chief executive were held by different persons. At the time of the introduction of Social Control it was found that having regard to the large number of matters of consequence that need the attention of the board, especially of the Chairman, there was need to have a full-time Chairman who would be able to give his undivided attention to looking after the affairs of the banks. The whole-time Chairman was also made the chief executive of the banking company. This is the pattern now in the State Bank and this follows that of the Reserve Bank. This pattern has worked for a considerable period. Having regard to all the aspects, we recommend that in the national banks there should be a whole-time Chairman and one whole-time chief executive. In no case the two offices should be combined. Now the Scheme for the 'new banks' provides for two whole-time directors of whom one is the Managing Director.

The Managing Director is also now the Chairman of the board. Of the two whole-time directors, one should be made whole-time Chairman and the other whole-time chief executive. Provisions should be made on uniform lines in the statutes governing the national banks for the appointment of Chairmen and for the determination of the remuneration payable to them.

(*ii*) *Composition*

20.17 In the composition of the boards of the 'new banks', there is provision now for the following categories :

(1) representation to men of particular occupations ;

(2) persons having special knowledge or practical experience in certain specified fields ;

(3) officials of the Central Government and the Reserve Bank ; and

(4) whole-time directors.

In the State Bank and the Subsidiaries there is no provision for item (1) above ; but there is provision for proportional representation of minority shareholders.

20.18 Consequent on its recommendation to acquire the outside holdings of the shares of the State Bank and the Subsidiaries, the Study Group has recommended that there is no need for the provision for giving representation to minority shareholders. Since we are not suggesting any immediate change in the ownership pattern of the State Bank and the Subsidiaries, the provisions for such representation may continue for the present in the State Bank and the Subsidiaries. Ultimately, a uniform scheme may be evolved for all the national banks, retaining the features which are found conducive to the healthy working of the different categories of the national banks. The question of extending representation on the Boards of the State Bank and the Subsidiaries to men engaged in specified occupations, namely, farmers, workers, artisans, as also the depositors and the employees of banks could also be considered then.

20.19 The State Bank Act provides for a *nominee* of the Central Government as also of the Reserve Bank on its board. There is provision for appointment by Central Government of an *official* of the Central Government and of the Reserve Bank as directors on the boards of the 'new banks'. The Central Government has the option of nominating a director on the boards of the Subsidiaries. There is also provision for the Reserve Bank nominating one of its officers on the boards of the Subsidiaries. The Study Group has recommended that the Central Government should be free to appoint as its representative either an official or a non-official on the boards of the national banks and that it may not be correct in principle for the Reserve Bank to appoint

its representatives on the boards of the national banks. The Study Group has expressed the view that if at all, the Reserve Bank may appoint observers on the boards of the national banks.

20.20 While it is a Deputy Governor of the Reserve Bank who is nominated on the board of the State Bank *by the Reserve Bank*, an official of the Reserve Bank is appointed *by the Central Government* on the board of a 'new bank'. In the latter case, it may not be strictly correct to regard the officials as representing the Reserve Bank. In practice, appointment of the Reserve Bank's officials on the boards of the 'new banks' has helped to maintain liaison between the bank and the Reserve Bank. In the case of the State Bank, it has been considered necessary, and found useful for liaison, to have on its board a Deputy Governor of the Reserve Bank as the nominee of the Reserve Bank. The appointment of observers by the Reserve Bank may not be effective and useful. We, therefore, do not consider that any change is necessary in the existing position except that in the appointment of the representative(s) of the Central Government, the choice of that Government need not be restricted only to its officials.

20.21 In the Acts of the State Bank and the Subsidiaries there is a specific provision which precludes a Member of Parliament or Legislature from being a director of any of these banks. This prohibition does not apply as such to the appointment of Members of Parliament/Legislature as directors on the boards of the 'new banks'. The Study Group has recommended that either the prohibition found with reference to the State Bank and the Subsidiaries should be removed or it should be extended also to the 'new banks'. Since we are not now recommending any change in the composition of the boards of directors of the State Bank and the Subsidiaries for the present, the *status quo* may continue.

20.22 In addition to the aforesaid classes of persons, the board of a national bank includes also whole-time directors (except with reference to the Subsidiaries), their number being dependent on the size and the requirements of the bank. In the State Bank Act there is provision for two Managing Directors in addition to a whole-time Chairman. For the 'new banks' there is provision for two whole-time directors. The number of whole-time directors necessary for the State Bank and the 'new banks', as at present provided for, seems to be adequate ; however, Government may review the situation from time to time in consultation with the Reserve Bank and provide for any changes that may be considered necessary. In the Subsidiaries, the General Manager should be made a member of the board and designated as Managing Director.

20.23 In the State Bank Act there is provision for a Vice-Chairman, though this office has remained vacant for some time. The Study Group has stated that the desirability of having such a provision with reference to the

Subsidiaries and the 'new banks' may be examined. In our view, even in the State Bank there does not seem to be much necessity for a Vice-Chairman. But, if a Vice-Chairman is at all to be appointed, he should be a professional banker.

20.24 The 'new banks' Act provides for representatives of specified classes of persons, namely, farmers, workers, artisans, depositors and employees, to be either *elected or nominated*. Having regard to the cost, time and trouble involved in following an elective process, we recommend that the reference to election in the 'new banks' Act for the selection of the representatives of farmers, workers, artisans and depositors may be deleted. However, it should be statutorily provided that the representatives of employees should be chosen always through secret ballot.

20.25 The need for persons having special knowledge of, or practical experience in, specified fields, being appointed in sufficient number on the boards of the national banks does not require any emphasis. We may refer to the provisions of section 10A of the Banking Regulation Act, 1949, which provide for a *majority* of the board of directors consisting of persons who have special knowledge or practical experience on the matters specified in the section. The principle underlying section 10A has validity for all the banks and it is necessary to make provisions on similar lines with reference to the national banks as well.

(*b*) *Committees of Central Board*

20.26 While there are adequate provisions in the State Bank Act regarding the formation of committees of the Board, and the entrustment of powers to them, the provisions are not adequate in the case of the 'new banks'. Adequate provisions have to be made in the statute of the 'new banks' for the following :

(*i*) provision should be made in the statute of the 'new banks', instead of leaving the matter to subsidiary legislation, for the setting up of a managing committee and the entrustment of powers to it ;

(*ii*) following the pattern of the State Bank and the Subsidiaries, it should be provided that any director (including the whole-time director) of a national bank, though he is not named a member of the managing committee, may participate in the meetings of the managing committee as a member if he is able to attend its meetings ; and

(*iii*) provision should be made for the setting up of other committees, and for the power to associate outsiders with such committees, in the enactments of the national banks.

(*c*) *Chief Executive Officer*

20.27 There are differences in the manner of vesting of powers, and the extent of such vesting, in the chief executives of the national banks. For instance, the Chairman of the State Bank has powers almost co-extensive with those of his Board and there is no need to delegate to him any powers. On the other hand, the chief executives of the 'new banks' have only such powers as are delegated to them by the board by regulations or otherwise. Their powers are now traceable to the provisions which empowered the erstwhile Chairmen of the 'existing banks', since no regulations have yet been framed under the 'new banks' Act. The General Manager of a Subsidiary has certain delegated powers and is by the Act vested with powers to run the day-to-day administration of the bank. The chief executive should be the administrative head of the bank and should be entrusted with all necessary powers. The chief executives of all the national banks should be vested with the same or similar powers. Provisions should be made in the statutes governing the national banks for the appointment of chief executives and for the determination of the remuneration payable to them. Such provisions should be on uniform lines for all the national banks.

20.28 The Study Group has recommended that having regard to the size, extent and area of operation and such other relevant factors, the desirability of providing for Deputy Chief Executives (*e.g.*, Managing Director of the State Bank) for all the national banks may be considered. In our view, in the case of national banks having 300 or more branches, such deputy chief executives should be appointed, and to enable this, necessary provisions should be made in the enactments governing the national banks on the lines of the provisions found in the State Bank Act.

B. Organisation at the Regional Level

20.29 A comparative study of the provisions applicable to the national banks regarding the setting up of regional organisations with a view to facilitating a sufficient degree of decentralisation of powers and functions shows that while the provisions applicable to the State Bank provide for such decentralisation of powers and functions, there are no such provisions applicable to the 'new banks'. There are statutory provisions which enable the Local Boards of the State Bank to transact their business independently subject only to such limitations as the Regulations may impose. The State Bank Act also provides for regional chief executives who function as the Secretaries of its Local Boards. There is a strong case for the setting up of such regional boards in the 'new banks' which should be assisted by regional chief executives. Having regard to the programme of branch expansion and the increasing volume of transactions of these banks, urgent attention has to be given to the

making of adequate statutory provisions to facilitate decentralisation of powers and functions. In particular, it is necessary to provide for the following :

(*i*) Provision should be made to enable the constitution, for the 'new banks', of regional boards with statutory powers and responsibilities as in the case of the State Bank. These regional boards may cover the branches under the control of one or more Zones.

(*ii*) In the matter of the composition of the regional boards for the 'new banks', it is necessary to make provision, on the lines of section 10A of the Banking Regulation Act, 1949, for including also at the local level persons with special knowledge or experience.

(*iii*) In the case of the 'new banks' provision should also be made for constituting committees of local boards, having regard to relevant factors, such as their size, area of operation, etc.

(*iv*) The State Bank Act empowers its Central Board to constitute local committees for any area to exercise such powers and perform such functions as the Central Board may confer on, or assign to, such committees. Such enabling provisions should also be made with reference to the 'new banks'.

(*v*) Appropriate statutory provisions should be made for the 'new banks' having regional chief executives on the pattern of the provisions applicable to the Secretary and Treasurer of the State Bank.

(3) FORMS OF AUTHORISED BUSINESS

20.30 The State Bank suffers from the drawback of its Act not allowing scope for it to transact all kinds of business ordinarily permitted to be undertaken by banks, including other national banks, though it has certain advantages with reference to the transaction of Government business, maintenance of currency chests, etc. In this respect, the position of the Subsidiaries is better than that of the State Bank. The State Bank, as the successor to the Imperial Bank, is still subject to certain limitations which were found necessary to be imposed on the Imperial Bank when it was performing some of the functions of a central bank of the country. In the exercise of the powers and the transaction of business, all the national banks should be treated alike. This requires implementation as early as possible to facilitate the effective functioning of all the national banks. This would also facilitate a meaningful comparison of the performance of the national banks. We, therefore, make the following recommendations:

(*i*) The existing restrictions, arising from sections 33 and 34 of the State Bank Act, in regard to certain types of transactions being undertaken by the State Bank should be removed and that bank should be statutorily empowered to engage in all forms of business which the 'new banks' and the Subsidiaries can undertake.

(*ii*) In relation to the transaction of Central Government business, all the national banks should be treated equally. Section 45 of the Reserve Bank of India Act, 1934, may be suitably amended to embody this principle.

(*iii*) The mechanism of the Currency Chests enables the State Bank (including the Subsidiaries) to operate with slender cash balances. The 'new banks' should also be given this privilege.

(*iv*) Statutory provision should be made that any of the national banks may be entrusted with State Government business.

(*v*) Government should modify suitably its administrative instructions issued earlier to enable all the national banks being entrusted with the banking business of Local Bodies and statutory corporations.

(*vi*) The statutory and other applicable provisions in, or under, other Central or State enactments should be suitably modified so as to provide for the banking business of Trusts and other statutory bodies being given to any of the national banks.

Intermediate Central Banking Functions

20.31 Even after the setting up of the Reserve Bank, the Imperial Bank continued to exercise certain intermediate central banking functions. Such functions have continued to be performed by the State Bank as the successor to the Imperial Bank. The justification for the State Bank or any of the other national banks continuing to exercise intermediate central banking functions, such as those specified under the provisions of sections 18 and 24 of the Banking Regulation Act, 1949, and section 42 of the Reserve Bank of India Act, 1934, has to be examined by the monetary authorities. Pending a decision on this basic question, since all the national banks are to be given parity of status, it is necessary to place the other national banks, for the purpose of the aforesaid statutory provisions, on par with the State Bank and the Subsidiaries. For this purpose, the references to the State Bank in sections 18 and 24 of the Banking Regulation Act, 1949 and section 42 of the Reserve Bank of India Act, 1934, may be substituted by a reference to the 'national banks.'

(4) Accounts, Audit, Profit, Reserves, Etc.

20.32 There are certain difficulties arising out of the provisions in the 'new banks' Act for the appropriation by the 'new banks', of the specified percentage of their profits to their general reserves. For them, there is no provision for declaration of dividend. By reason of this and the fact that sometimes a distinction is made between the expressions 'provision' and 'reserves', the requirement that after making usual and necessary provisions the remaining surplus profit of the 'new banks' should be transferred to the Central

Government, poses some difficulty in applying section 17 (which requires the transfer of a specified percentage of a bank's net profits to its general reserves before declaration of a dividend) of the Banking Regulation Act to the 'new banks'. As the intention is that the 'new banks' should also be enabled to build up adequate reserves by transferring a portion of their net profits to their general reserves, it may be specifically provided that the transfer by them of the surplus to the Central Government would be only the balance of net profits remaining after such transfer.

20.33 The Integration and Development Fund of the State Bank was set up when the State Bank was required to undertake developmental programmes, such as branch expansion, etc., which would not be remunerative in the initial years. The Fund consists of the dividend payable on the minimum percentage (55 per cent) of shares of the State Bank which the Reserve Bank is required to hold at all times, and any other special contributions by the Reserve Bank or the Central Government. The idea was that the losses that may be sustained by reason of the State Bank/Subsidiaries undertaking special developmental scheme(s), such as branch expansion in rural areas, should not affect the profits which the outside shareholders might have received from these banks but for such developmental activities. The State Bank no longer relies on the Fund and has agreed to voluntarily forgo recourse to it. Hence, if this Fund is discontinued, this will not affect the State Bank and the Subsidiaries in any way, and we accordingly recommend its discontinuance.

20.34 The Study Group has recommended that the annual accounts of all the national banks should be placed before Parliament for consideration. The Study Group has felt that consideration by the general body, in the case of the State Bank and the Subsidiaries, could not be as effective as the matter being placed before Parliament. The accounts of the 'new banks' have to be placed before Parliament since there is no general body to consider the report on the working of those banks. Such is not the position with reference to the State Bank and the Subsidiaries. We have earlier recommended that the ownership pattern of the State Bank group and that of the 'new banks' may continue until sufficient experience is gained in the working of the management scheme framed for the 'new banks' ; hence, we do not suggest any change at this juncture.

20.35 The provisions that specify who should sign the annual accounts and the time for their completion and submission are not uniform for all the national banks. There are certain discrepancies in these matters as applied to the 'new banks', the State Bank and the Subsidiaries. The relevant provisions should be modified providing for uniformity in all these matters.

20.36 The statutory form of the declaration of secrecy to be subscribed to by the officials of the national banks is now worded in a way that may preclude them even from disclosing any information relating to the affairs of the

banks as distinct from disclosure of information relating to the affairs of their customers. Since the declaration is required to be subscribed to by the directors, auditors and all other officials of the banks, the concerned officials face difficulty when the banks are asked to give information about themselves to persons not statutorily vested with powers to require such information. These provisions inhibit the banks unnecessarily from revealing such information even to Governmental Commissions or Committees not constituted under the Commissions of Inquiry Act, 1952. It should be statutorily provided that notwithstanding the statutory form of declaration of secrecy provided for the officials of the national banks, the banks are not precluded from disclosing information relating to their affairs, as distinct from those of their customers.

20.37 There are some minor differences in the provisions applicable to the national banks in relation to the appointment of their auditors, the carrying out of special audit, the remuneration of auditors, the form of auditors' certificate, and the submission and verification of the auditors' report. The provisions relating to audit should be uniform for all the national banks.

20.38 The auditors of the national banks have felt certain difficulties in leaving out from audit, every year, a certain number of branches of the national banks. The Study Group has recommended that it is desirable to provide specifically for the branch audit of the national banks on the pattern of the provisions applicable to companies. With reference to the 'other banks', section 228 of the Companies Act, 1956, and the Companies (Branch Audit Exemption) Rules, 1961, provide for the audit of branches and the procedure for granting exemption to any branch office from such audit, essentially having regard to the following matters, namely :

(*i*) the arrangement made by the company for the audit of accounts of the branch office ;

(*ii*) the nature and quantum of activity carried on at the branch office ;

(*iii*) the availability at a reasonable cost of a branch auditor for the audit of the branch office; and

(*iv*) any other matter which justifies the granting of exemption to the branch office.

In the light of the aforesaid, the Company Law Board has set out the principles[1] (which are reviewed from time to time) for determining the applications for exemption of the branches of the 'other banks' from the requirements of the Companies Act relating to branch audit. It is necessary to have similar provisions for the audit of branches of the national banks. The formula for granting exemption from audit of the branches of the national banks should

[1] *vide* letter No. 1(24)CLVI/64 dated December 8, 1964 from the Company Law Board, Department of Company Law Affairs and Insurance, to the Secretary, Indian Banks' Association, Bombay.

ensure that all the branches of a national bank are audited at least once in three years. The selection of branches in a particular year may be left to be determined by the Reserve Bank. The branch auditor should be approved by the statutory auditor of the national bank from out of a panel of auditors maintained by the Central Government. The statutory auditor's right to inspect any branch office and obtain necessary information (*vide* section 228(2) of the Companies Act, 1956) should not also be affected.

(5) Powers of Central Government

20.39 The Central Government's powers with reference to the national banks may be classified as those pertaining to policy matters, the making of schemes, and the framing/sanctioning of Rules/Regulations.

20.40 The Central Government may give directions, in consultation with the Governor of the Reserve Bank, on matters of policy involving public interest, for all the national banks. While it can give such directions to the 'new banks' directly, its directions to the State Bank and the Subsidiaries are required to be given *also* in consultation with the Chairman of the State Bank and *through* the Reserve Bank. The Study Group has recommended that there should be a uniform procedure with reference to all the national banks. The requirement as to the routing of the directions of the Central Government to the State Bank and the Subsidiaries through the Reserve Bank has relation to the present owernship pattern. Hence, the present position may continue until the ownership pattern of all the national banks is made uniform. It has been suggested before us that it should be specifically clarified that the directions of the Central Government should be in writing. The Chagla Commission[1] had also recommended that "Government should not interfere with the working of autonomous statutory corporations ; that if they wish to interfere they should not shirk the responsibility of giving directions in writing". Having regard to all aspects, we recommend a statutory provision to the effect that Government's directions to the national banks should be in writing.

20.41 With reference to the 'new banks' the Central Government has powers, by framing a Scheme, to alter suitably their capital structure, the constitution of their boards, and to reconstitute, amalgamate or transfer their undertakings (wholly or in part). It has no such powers under the enactments governing the State Bank and the Subsidiaries ; but, the Study Group has recommended conferment of such powers on the Central Government since such conferment would facilitate the restructuring of all the national banks. In the chapter on Restructuring of Banking System we have given our views on the restructuring of the national banks ; to give effect to the same, suitable amendments may have to be made in the enactments governing the national banks.

[1] One-man Commission appointed by the Government of India in 1958 to investigate on the investments made by the Life Insurance Corporation of India.

20.42 While the Central Government has powers to make Rules to give effect to the provisions of the State Bank and the Subsidiaries Acts, it has no such powers under the 'new banks' Act. The Study Group has recommended that it is desirable that such powers are vested in the Government. The purpose for which the rule-making powers were conferred on the Central Government at the time of the formation of the State Bank and the Subsidiaries had relation mainly to the question of payment of compensation to the erstwhile shareholders of the Imperial Bank and the former Part 'B' State-associated banks. This provision has worked itself out. But, there may be certain matters, such as the prescribing of the formula for the audit of the branches of the national banks, with regard to which conferment of Rule-making powers on the Central Government may be useful. Hence, the Central Government may be vested with powers to make Rules, in consultation with the Reserve Bank, also to give effect to the provisions of the 'new banks' Act.

(6) OTHER PROVISIONS

20.43 A study of the provisions in the enactments applicable to the State Bank, the Subsidiaries and the 'new banks' with reference to their adequacy to enable these banks to acquire other banking undertakings and for making consequential arrangements has revealed the need for certain special provisions on the following lines, especially with reference to the 'new banks' :

(*i*) Section 35 of the State Bank Act and section 38 of the Subsidiaries Act enable these banks to acquire other banking undertakings pursuant to a Scheme framed by the Central Government. These provisions also exhaustively set out matters that could be dealt with under such Schemes. Provisions on similar lines should be made for the 'new banks' as well.

(*ii*) Provisions that should apply to the new corporations that may come into existence by reason of the break-up or amalgamation of any of the 'new banks' should be laid down in the statute itself.

(*iii*) Generally, the provisions found with reference to the Schemes that could be framed under the Banking Regulation Act, the State Bank Act and the Subsidiaries Act may be taken as the pattern for the provisions to be made for the framing of Schemes under the 'new banks' Act. The State Bank and the Subsidiaries Acts, as also the Banking Regulation Act, 1949, contain enabling provisions specifying in detail the matters that can be provided for in the Schemes framed thereunder. Such enabling provisions help to decide whether or not the Schemes could deal with a particular matter. They reduce the scope for disputes regarding the validity of such Scheme provisions. The Act of the 'new banks' does not specify expressly matters that could be provided for in the Scheme.

Similar provisions should be made in respect of the Schemes framed under the 'new banks' Act.

(*iv*) There are specific provisions in the enactments governing the State Bank and the Subsidiaries, providing that in the event of the transfer of the services of the staff, pursuant to any Scheme, the employees will have no claim for compensation (like that payable under the Industrial Disputes Act, 1947). There are now no such provisions, and it is necessary to make such statutory provisions, with reference to the Schemes framed under the 'new banks' Act.

Regional Consultative Committees

20.44 The Scheme for the 'new banks' provides for the constitution of Regional Consultative Committees. The Study Group has pointed out that there is no provision for constituting such Committees in the 'new banks' Act and that having regard to the Committee's function, namely, "to review banking developments within the region" and to make "such recommendations as it may deem appropriate for the consideration of the Central Government and the Reserve Bank", the purpose for which such Committees are constituted has no direct nexus with the establishment, powers and functions of the 'new banks' which alone are dealt with under their Act. The Study Group has recommended that :

(*i*) the provisions relating to the set-up and functions of the Regional Consultative Committees may be made a separate chapter of the Banking Code (recommended in Chapter 19) ; and

(*ii*) having regard to the purpose for which such Committees are to be set up, representation should be given in the composition of such Committees also to the State Bank, the Subsidiaries, the Co-operative banks and the 'other banks'.

As the Study Group has pointed out, the statute of the 'new banks' or even the Scheme framed under it, is not the appropriate place for the setting up of a machinery like the Regional Consultative Committees. In addition to the representatives of banks and of Central Government, provision is also made for giving representation to the States/Union Territories of the area. The function and role assigned to these Committees require to be reviewed. While it is necessary to have a machinery that could help to co-ordinate the activities of commercial and co-operative banks and also enlist the co-operation of the State Governments/Union Territories, these aims could be achieved only if such consultations could be provided for not merely at the regional level but at all levels. For this purpose, the setting up of a statutory body like that envisaged under the Scheme for the 'new banks' may not be either necessary or desirable. Such consultations and co-ordination of activities may be provided for by administrative arrangements rather than by legislation. In this view, there will be no need for the Regional Consultative Com-

mittees envisaged in the Scheme for the 'new banks'. The effective way for achieving co-ordination between the commercial and co-operative banks as also of enlisting the co-operation of the local authorities has been considered by us in Chapter 10.

National Banks Act as Part of the Banking Code

20.45 The Study Group has recommended that a uniform scheme may govern all the national banks and that this may be made a separate part of the Banking Code. Earlier we have considered the desirability of bringing all the national banks under one scheme. While the provisions relating to the organisational set-up, forms of authorised business, etc., could be the same with reference to all the national banks, we have favoured the continuance of the *status quo* with reference to the ownership pattern of the national banks till such time as further experience is gained and Government undertakes a review with a view to bring about a uniform structure of ownership for all the national banks. Hence, the provisions relating to the capital structure, ownership pattern and the management of the State Bank, the Subsidiaries and the 'new banks' may be given as separate sections, and the provisions which could apply in common to all the national banks, *e.g.*, provisions relating to the organisational set-up, forms of authorised business, could be made another section, of the part of the Banking Code that would deal with all the national banks. In other words the aim is to have all the relevant provisions relating to banking legislation placed in the Banking Code.

CHAPTER 21

OTHER LAWS AFFECTING BANKING

21.1 The carrying on of the business of banking depends *inter alia* on the legal environment, that is, on the laws applicable to the acceptance of deposits, the withdrawal of deposits, their lending, etc. The implications and the terms governing the deposit taking function bring to the fore the need for special consideration of the legal relationship between the banker and his customer. The special class of negotiable instruments known as cheques[1] is linked with the mode of withdrawal of deposits with banks. This and the collection of instruments by banks on behalf of their customers bring banking in close nexus with the laws governing negotiable instruments and negotiable documents. Primarily, banks rely on lending for the use of the funds received from the public and hence their concern with the laws relating to loans and advances. Lending takes many forms. Since banks deal with others' money and in order to protect themselves as also to relate credit to the purpose of the borrowing or the end-use of the funds, considerations of security and the laws pertaining thereto become significant for banking. Moreover, the laws have to be adapted to facilitate the dispersal of credit on the merit of the purposes of the credit and not merely the creditworthiness of the persons seeking financial assistance. In short, for the effective functioning of the banking system, it is necessary that not only the carrying on of banking business be regulated but also the other laws affecting the carrying on of such business should be rational, should facilitate innovation and improvement in banking techniques and practices, and should be conducive to the spread of banking. The social objectives required to be fulfilled by banks also necessitate the review of the other laws affecting banking.

21.2 Broadly, the areas, the laws pertaining to which could be considered to affect banks and banking, may be grouped under the following heads :

(1) The law relating to banker and customer ;

(2) Laws governing business allied to banking ;

(3) Laws relating to negotiable instruments and negotiable documents ;

(4) Laws relating to loans and advances ;

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[1] Draft is another form of negotiable instrument drawn by one branch of a bank on another branch of the same bank.

(5) Laws relating to financial intermediaries which are not doing banking ; and

(6) The effect of the provisions of the Company Law on the carrying on of the business of banking.

The Study Group which was constituted by the Commission to undertake a review of the laws affecting banking (referred to in the rest of this chapter as the Study Group) in its report on Banking Legislation *inter alia* deals with items (1) to (4). While on items (1) and (2) the report gives the recommendations of the Study Group, on items (3) and (4) the report sets out generally the types of issues arising for consideration. The Study Group's review of the other laws affecting banking, *viz.*, on items (3) to (6) above, is not complete. The Commission has requested the Government to make arrangements for the continuance of such review. With reference to such laws, we indicate in this chapter, in addition to setting out the stage of the review undertaken by the Study Group, the nature of the problems falling for consideration, the sort of measures that may have to be considered for rationalising the laws and the need for a comprehensive review in depth.

Section 1—Law Relating to Banker and Customer

21.3 The need for special provisions concerning the relationship between banker and customer is felt on the following matters :

(*i*) the obligations of banks as to the observance of secrecy regarding the affairs of their customers ;

(*ii*) the furnishing/availability of adequate information for the credit rating of borrowers ; and

(*iii*) provisions to ensure that the balances and assets which are held by banks are allowed to be repaid/returned in time, and without unnecessary expenditure, to the customers or their representatives.

A. *Secrecy as to Affairs of Customers*

21.4 While there is the need to preserve the obligation of banks to observe secrecy regarding the affairs of their customers, this obligation should not either come in the way of furthering public interest or checking evasion of public revenue, or place the banks in a state of apprehension as to the circumstances when, and the extent to which, they could disclose information relating to the affairs of their customers. The banks' obligation to observe secrecy as regards the affairs of their customers should continue ; but this obligation should be subject to recognised exceptions and qualifications.

Disclosure of General Information

21.5 Before going into the specific qualifications for the banks' duty to observe secrecy regarding their customers' affairs, we may refer to the

desirability of a statutory clarification to the effect that such obligation is not to affect in any manner the banks furnishing information of a general nature relating to the affairs of their customers without revealing the identity of the individual constituents. The necessity for such a clarification has been felt on a reading of the provisions in this behalf in the statutes governing the national banks. The matter should be so clarified to avoid any room for doubt.

Qualifications to Secrecy Rule

21.6 The qualifications to the rule as to secrecy were recognised in Tournier's case.[1] There, Lord Justice Bankes has classified the qualifications for the bankers' duty to observe secrecy regarding their customers' affairs under the following four heads :

(1) where disclosure is under compulsion by law ;

(2) where there is a duty to the public to disclose ;

(3) where the interests of the bank require disclosure ; and

(4) where the disclosure is made with the express or implied consent of the customer.

Tournier's case is the leading decision on the point, and the qualifications recognised therein for this duty, by Lord Justice Bankes should be applied in our country. These are discussed in the following paragraphs.

(1) Where the Disclosure is under Compulsion by Law

Police Investigations

21.7 Lord Justice Bankes gave, as an instance of this class of qualification, the duty to obey an order under the Bankers' Books Evidence Act. On the pattern of the English legislation, we have a similar measure in India. In its working, the need has been felt for certain clarifications. The Lahore High Court in A.F.G. Price *v.* Emperor[2] has held that the scope of the expression "legal proceedings" found in the Act would not include police authorities investigating any offence under the provisions of the Criminal Procedure Code. A statutory provision may be made in the said Act to the effect that during police investigations it should be sufficient for a bank to produce before police authorities certified copies of the relevant extracts from its books, unless the production of copies thereof is considered as not adequate by an authority of a rank not lower than a Superintendent of Police.

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1 Tournier, a customer of a bank, had overdrawn his account by £.9. The bank allowed him to pay the amount in instalments of £.1 each ; but, after three instalments, Tournier defaulted in further payments. The bank manager spoke to Tournier's employers and during the conversation he mentioned to them that Tournier seemed to be betting heavily, that his account was overdrawn and that he was not able to act up to his promises. Tournier filed a suit, *inter alia*, for breach of the confidence existing between banker and customer [(1924) 1 K. B. 461 .]

2 A.I.R. 1937 Lahore 160.

Micro-filming of Bank Records

21.8 Micro-filming of books and records of banks is considered necessary to solve the problems of banks finding adequate storage space. But, the question of the admissibility in legal proceedings of micro-filmed copies of the books and records of banks, when the originals are destroyed due to want of space, has been considered to come in the way of such micro-filming. Even at present, if the original documents are destroyed by banks, in the regular course of business, and the documents have been micro-filmed before such destruction, the Study Group has indicated, the relative positives of the films are admissible as evidence provided they are properly produced and proved in court. We recommend that a statutory provision may be made in the Bankers' Books Evidence Act specifically clarifying the position to the said effect.

Preservation of Bank Records

21.9 The fiscal statutes in other countries now contain appropriate provisions enabling the authorities to have access to the information available with banks regarding their customers' affairs. Bank records have been found to be highly useful for checking tax evasion in India. When the Income-tax Investigation Commission was being wound up consequent on the decision of the Supreme Court in Sree Meenakshi Mill's case,[1] that Commission had pleaded for suitable measures to be taken to ensure preservation of bank records for a period that may be considered as sufficient from the tax investigation point of view. The success of the Commission's investigations in most of the cases referred to it depended to a large extent on the information contained in the old records of banks, especially vouchers and other paid instruments. While administrative instructions were found adequate, in the first instance, for requiring banks to preserve their records for a specified period, these arrangements met with difficulty when banks pressed for being allowed to destroy the records due to problems of storage space etc. In this context, section 209 of the Companies Act was amended requiring companies to preserve for a period of eight years their books of account ; this requirement applied also to banking companies. In 1965, the provision was further amended to clarify that the words 'books of account' included also the vouchers.

21.10 Section 209 of the Companies Act is not, however, applicable either to the national banks or to the co-operative banks. While it is necessary to preserve bank records for a period that may be considered sufficient from the point of view of checking tax evasion, there are also other criteria that may have to be taken into account, namely, the banks' own needs and the difficulties banks might face in preserving the records beyond a reasonable length of time. In the result, a separate statutory provision should be made for this

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1 A.I.R. 1955 S.C. 13.

purpose. The minimum period for which the banks should be required to preserve their several records should be fixed, for each type of record, having regard to :

(i) the period for which it would be desirable for banks to maintain the records for their own needs ;

(ii) the period upto which such records could be usefully required in connection with tax or other regulatory proceedings ; and

(iii) the practical difficulties the banks may face in preserving their records beyond a reasonable length of time.

The provision should provide for the period of preservation of various bank records being prescribed from time to time by the Central Government in consultation with the Reserve Bank. The provision for preservation of records should also apply to all co-operative banks other than primary credit societies. It will be neither desirable nor feasible to apply the requirements as to preservation of bank records to primary co-operative credit societies in view of the nature of their business and their limited administrative and other resources.

Preservation of Paid Instruments

21.11 The U.S. Public Law 91 - 508 requires a bank in that country to keep to the extent the regulations framed by the Secretary may require microfilm or other reproduction of "each check, draft, or similar instrument drawn on it and presented to it for payment". Considerable evidence has been gathered by the Committee on Banking and Currency of the U.S. Senate "on the high degree of importance of having access to copies of checks drawn on commercial banks". This legislation recognises the "high degree of usefulness" of bank records "in criminal, tax and regulatory investigations and proceedings". We have earlier referred to the value attached to such records in India by the Income-tax Investigation Commission. It is in this background that the practice in India regading the preservation of paid instruments has to be considered.

21.12 Banks were originally required to reserve their paid instruments till the work of the Income-tax Investigation Commission was over ; they were required to do so pursuant to the powers vested in that Commission. Subsequently, when statutory requirements yielded place to administrative arrangements, banks raised the question as regards the right of the customer to claim return of the paid instruments as the property in them, according to English law, vested in the customer. Then the Income-tax Department had agreed to a proposal that banks may return the paid instruments to their customers after taking an undertaking from them that they would preserve the returned instruments for a period of eight years and make them available to the Income-tax authorities whenever required to do so during that period.

From this requirement, statutory corporations, Government Departments, Consular offices and other public bodies have been exempted. The utility of such an undertaking has been justifiably regarded as not amounting to much. Nor there seems to be much justification in returning, even without such undertaking, the paid instruments drawn by Government Departments and statutory corporations.

21.13 If paid vouchers are preserved by banks, scope for malpractices and frauds is considerably reduced. Such instruments have got intrinsic value in checking tax evasion. Hence, a statutory provision should be made fixing the period of preservation of paid instruments by banks. When, for valid reasons, customers require the return of the paid instruments before the period specified for their preservation, the relevant instruments may be returned only after they are micro-filmed. The cost of micro-filming should be borne by the customer. This provision should be applied also to the return of paid instruments drawn by Government Departments and statutory corporations.

Returns, etc., to Income-tax Authorities

21.14 The Income-tax Act, 1961, requires banks to furnish returns in respect of specified information and also empowers the Income-tax officer to require a bank to furnish information on matters considered as useful for or relevant to any proceeding under the Act. There are also some provisions in the Companies Act which require disclosure of customers' affairs by banks in certain circumstances. From the point of view of banking, no change in the said provisions appears necessary.

Identification of Parties

21.15 The All-India Institute of Chartered Accountants has submitted before the Study Group that banks should be required to adopt appropriate procedures, and also be made responsible for the identification of parties having transactions with them. Certain provisions of the U.S. Public Law 91 - 508 also cast such obligations on banks in the U.S.A. The experts whom the Commission has interviewed have also favoured such a requirement. The Study Group has not gone into this question since the matter is reportedly under the consideration of the Direct Taxes Enquiry Committee appointed by the Government of India on Tax Evasion and Administration (Wanchoo Committee). At present, while banks insist on introduction of customers who open current accounts with them, such introductions are not asked when non-chequeable savings bank accounts or fixed deposit accounts are opened. Likewise, now banks do not require any identification of parties purchasing drafts for remittance. If banks are required to identify parties coming to them for all types of transactions, the procedural requirement involved may affect the cost and the quickness of their service.

State Revenue Laws

21.16 The power to compel disclosure of information under authority of law is exercisable both by the Central and by the State Governments. The Central laws require disclosure by banks of information relating to the affairs of their customers to facilitate recovery of Central revenues, *e.g.*, Income-tax. Our attention has been drawn to some provisions under the Sales Tax Acts of certain States which require banks to disclose certain information available with them regarding their customers, to the Sales Tax authorities. While the State Governments may in proper cases call for such information, the information gathering and information furnishing activities of banks should not be allowed to become their major activity. Hence, while making such provisions and administering the existing provisions, State Governments should act in consultation with the Reserve Bank.

Information with Foreign Branches of Indian Banks

21.17 Questions of law and propriety arise with reference to information available with the foreign branches of Indian banks, when such information is required to be disclosed pursuant to orders served on their controlling offices in India. The question whether in such cases the controlling offices of the foreign branches should obtain and furnish the required information has not been decided authoritatively. There should be a statutory provision clarifying this. This question has also to be considered keeping in view other practical considerations, such as the repercussions of such disclosure on the business of the foreign branches of the Indian banks. In such cases, we should have regard to international practice and agreements between countries.

(2) *Duty to the Public to Disclose*

21.18 Lord Justice Bankes had felt in Tournier's case that many instances of this class might be given ; but, in practice, this qualification has remained vague and placed the banks in difficult situations. In response to the questionnaire issued by the Study Group, a general support has been expressed for the view that this qualification should be explained, if not by defining it, at least by clarifying it by enumerating certain instances. In this view, it has been suggested that in the following instances, it should be statutorily laid down that a bank is under a duty to disclose in public interest :

(*a*) when a bank is asked for information by a government official concerning the commission of a crime and the bank has reasonable cause to believe that a crime has been committed and that the information in the bank's possession may lead to the apprehension of the culprit ;

(*b*) when the bank considers that the customer is involved in activities prejudicial to the interests of the country ;

(*c*) where the bank's books reveal that the customer is contravening the provisions of any law ; and

(*d*) where sizeable funds are received from foreign countries by a constituent.

We recommend a statutory provision clarifying the circumstances when banks should disclose in public interest information relating to the affairs of their customers (by enumerating the specific cases cited above). The statutory provision can also lay down that if and when a bank forms *bona fide* an impression that it owes a duty to the public to disclose, it is relieved of its obligation to maintain secrecy if it discloses the relevant information to the concerned authorities.

Disclosure for Research Purposes

21.19 Information regarding their customers' affairs relating to any period is not disclosed by banks for *bona fide* research purposes even after the lapse of considerable number of years. The Study Group has recommended a statutory provision to the effect that for research purposes banks could furnish information regarding the affairs of their constituents provided the information furnished relates to a period anterior to 20 years. While we agree with the spirit of the recommendation, we recommend that different periods may be prescribed for the disclosure of the affairs of individual-customers and those of corporate entities ; in relation to the former, information relating to a period anterior to 50 years and in relation to the latter, information relating to a period anterior to 20 years may be furnished by banks for research purposes.[1]

Disclosure of Information to Commissions/Committees Appointed by Government

21.20 When banks are asked to furnish information relating to the affairs of their customers to Commissions or Committees appointed by Government, the banks are placed in a difficult position if such bodies are not appointed under the Commissions of Inquiry Act, 1952, or are not vested with specific statutory powers to require disclosure of information from banks. In such cases, banks are not in a position to decide easily whether or not the disclosure of the information could be justified as warranted by public interest. We recommend that Government may be empowered by law to declare, from time to time, the names of Commissions/Committees appointed by Government to whom banks are obliged to disclose information relating to the affairs of their customers in public interest.

(3) *Disclosure by a Bank in its Own Interest*

21.21 No specific difficulties have been experienced with reference to the scope of this qualification and it is not necessary to make any special provisions in this regard.

[1] See also Chapter 22.

(4) Disclosure with the Express or Implied Consent of the Customer

21.22 The present basis of banks giving credit information regarding their customers, or in other words, answering references on them, is not always warranted by the terms of the contract with the customer, express or implied. This question is considered in the following paragraphs.

B. Credit Information

21.23 Credit rating of those who seek financial assistance from banks has become a specialised job. Bankers, no doubt, develop considerable expertise in this field by reason of their experience. Nevertheless, in dealing with numerous persons, big and small, and for assessing fairly and accurately their credit rating, banks and bank managers have to rely on external sources for the basic credit information which they need on their numerous borrowers. This problem may be viewed from three different angles, namely,

(*a*) furnishing of credit information by banks ;

(*b*) furnishing of credit information by specialised agencies ; and

(*c*) furnishing of credit information by the borrowers themselves.

(a) Furnishing of Credit Information by Banks

21.24 The present practice of banks answering 'references' on their customers rests on an assumption of the customers' implied consent ; the correctness of such an assumption is subject to question. The basis on which bankers may exchange credit information should not be left to rest on a contractual basis. The Fair Credit Reporting Act, 1970 of the U.S.A., highlights the reliance of the banking system on fair and accurate credit reporting. Banks labour under an overwhelming apprehension on the one hand regarding their obligation to maintain secrecy about the affairs of their customers and on the other of the possibility of their being held liable to the person who may be acting on such information. This results in vague and inadequate information being furnished by one bank to another about its customers. Banks usually give credit information with the addition of the rider 'without responsibility'. There is, therfore, the need for adequate statutory provision which would enable banks and financial institutions to exchange freely credit information on the affairs of their customers.

21.25 The national banks occupy a special position. They are required to play a dominant role and ensure that the banking system fulfils its objectives. They are in the ownership of the Central Government, directly or indirectly, and what separates them *inter se* is only their corporate veil. Hence, there should be full, free and frank communication of credit information between them. For this purpose, we recommend a special provision in their statutes.

(*b*) *Furnishing of Credit Information by Specialised Agencies*

21.26 The need for an outside agency to furnish banks with credit information was recognised in India long ago. Though the matter was under consideration since 1946, it was only in 1962 that Chapter III-A of the Reserve Bank of India Act, 1934, was enacted which resulted in the setting up of a Credit Information Bureau in the Reserve Bank. The nature of the information collected and furnished by this Bureau is limited. It does not cover prospective borrowers nor the small scale or medium sized borrowers. There is also considerable time lag between the collection of information and its availability to the banks. Having regard to the range and volume of credit information that would be required in the coming years to meet the requirements of banks and financial institutions, the present Credit Information Bureau in the Reserve Bank is not adequate to meet the situation. This is mainly due to the limited aim and scope of Chapter III-A of the Reserve Bank of India Act, 1934. The Bureau could not perform functions like those performed by other specialised credit information agencies in the U.K. or the U.S.A., *viz.*, Seyds or Dunn & Bradstreet. Such specialised agencies have to be set up in India.

21.27 Since the major banks and financial institutions which are in need of credit information are in the public sector, specialised credit information agency or agencies may have to be set up by legislation. Government may take appropriate measures to set up specialised credit information agencies as statutory corporations. On the setting up of such agencies, there will no longer be the need for continuing the Credit Information Bureau in the Reserve Bank, and Chapter III-A of the Reserve Bank of India Act, 1934, could thereafter be repealed.

21.28 For facilitating the effective functioning of credit information agencies, some special statutory provisions have to be made. There should be provision requiring banks and other financial institutions to furnish credit information agencies with such information, and in such form, as the agencies may specify in consultation with the Reserve Bank. This would relieve banks, with reference to such disclosure, of their obligation not to disclose information relating to the affairs of their customers.

21.29 Specialised credit reporting agencies have to adopt reasonable procedures to ensure fair and accurate credit reporting on those seeking credit facilities. The Fair Credit Reporting Act of the U.S.A. provides for this. The said legislation requires credit reporting agencies to adopt reasonable procedures "in a manner which is fair and equitable to the consumer, with regard to the confidentiality, accuracy, relevancy and proper utilisation of such information". There is also State legislation in the U.S.A. which provides for the customer, on whom credit information is given, being given an opportu-

nity to correct any error in the report on him. In the U.K., the Crowther Committee has also expressed itself in favour of the debtor being given the right to obtain details of filed information on him and being given an opportunity to correct any discrepancy. It is necessary to provide for credit reporting agencies adopting reasonable procedures in a manner which is fair and equitable, and for an opportunity being given to the person reported on to ask for correction of any error in the report on him.

21.30 There should be a statutory provision for indemnifying the credit reporting agencies from any action for damages or other losses which may be suffered by any person consequent on the credit information being given on, or for the use of, such person, so long as such agencies exercise their powers and functions *bona fide*. Such protection should also be available to banks while they furnish credit information on their constituents.

(c) *Furnishing of Credit Information by the Borrowers Themselves*

21.31 The provisions of the False Statements Acts of the U.S.A. require that financial statements furnished to banks are adequate and free from wilful and false representations, and provide for penalties for any misrepresentations in such statements. Similar requirements have been found to be considerably useful in Argentina. Having regard to the objectives set for the banking system and the developmental role it is expected to play, simultaneously with the taking up of measures to set up a credit information bureau for furnishing adequate and reliable credit information to banks and financial institutions, legislative measures should also be taken to provide that financial statements furnished to banks by their borrowers (including prospective borrowers) shall be true and correct and that any wilful breach of this obligation is punishable.

C. *Repayment of Deposits and Release of Assets by Banks*

21.32. The contractual basis on which banks are now repaying their deposits and releasing customers' assets is found inadequate. Special statutory provisions are required to deal with situations, which commonly occur, and which result in unnecessary delay and harassment to the members of the public dealing with banks, which place the banks in difficult situations and hinder their effective functioning. With this aim, the Study Group has made a number of recommendations. The spirit of the recommendations is, in substance, to relieve the banks from being involved in any avoidable litigation and to facilitate the expeditious flow of banking transactions. Such special provisions have been found by experience to be useful in the States of the U.S.A. The Post Office Savings Banks Rules, the Public Debt Act, 1944 and the Co-operative Societies Acts have such special provisions. The aim of the recommendations is not to affect in any way the rights of third parties. Having

regard to all circumstances, we recommend the following to facilitate the repayment of deposits and release of assets by banks :

(*i*) On the lines of the provisions found in the banking codes[1] of the States of the United States of America, *e.g.*, Pennsylvania Banking Code (1965) and the District of Columbia Code, for the repayment by banks of deposits held in accounts opened in the names of more than one individual, express provisions should be made.

(*ii*) Statutory provisions should be made on the lines of the provisions found in the banking codes[2] of the States of the United States of America, to facilitate banks' dealing with adverse or conflicting claims to deposits held in bank accounts.

(*iii*) Statutory provision should be made for giving nomination facility in relation to deposits by individuals with banks.

(*iv*) The effect of a nomination in relation to bank deposits should be statutorily provided for on the lines of the provisions contained in the Public Debt Act, 1944, and banks should be permitted to make payment to the nominee(s) unless restrained by an order of a competent court.

(*v*) A statutory provision should be made for an individual borrower availing of credit facilities from a bank nominating a person(s) who could be allowed, in the event of the death of the borrower, to repay the debt and obtain redemption of the assets charged to the bank by the borrower. While such redemption should give a good discharge to the bank, it should not affect the rights and claims of other parties to the assets of the deceased. It should also be provided that the nominee obtaining release of the charged assets will have a prior claim for getting himself reimbursed of the expenditure incurred by him to obtain the release of the charged assets. Such a nomination should not also affect any other rights the bank may have for realising any of its other dues recoverable from the estate of the deceased.

(*vi*) In relation to immovable properties mortgaged to banks, it should be provided that on the death of the mortgagor, a nominee indicated by him would have the right to redeem the mortgage by repaying the amount due to the bank in respect of such mortgage. Such a provision could also be made by way of an amendment to the Transfer of Property Act. It should also be provided that the nominees so redeeming the property will be subrogated to the rights of the banks *vis-a-vis* other persons who may have claims on the property. Such a nomination should not, however, affect the rights *inter se* of individual parties claiming under the mortgage. Statutory provisions may be made accordingly.

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1 *vide* the Study Group's report, Paragraph 7·5.
2 *vide* the Study Group's report, Paragraph 7·6.

(*vii*) Statutory provision should be made for enabling banks to return the articles kept in safe custody with them to the nominees of the depositors. The form for acceptance of valuables and securities for safe custody may provide for a depositor nominating a person to whom the valuables and securities may be handed over in the event of the death of the depositor. The effect of the provision should be to relieve the banks from any obligation in relation to such asset, but should not affect the rights *inter se* of the nominee and others claiming under the deceased depositor.

(*viii*) Statutory provision should be made for those renting safety lockers from banks indicating the persons to whom access may be allowed to the lockers on their death, or on the death of any one jointly renting the lockers, and before any such access is allowed on the death of such person(s), the tax authority specified by the Central Government for the particular area should be notified of the date when the locker would be opened in the presence of two responsible bank officials, or a responsible bank official and the representative of the tax authority specified by the Central Government, and an inventory taken of the contents of the locker(s) in their presence.

SECTION 2 — THE LAWS GOVERNING BUSINESS ALLIED TO BANKING

21.33 In the business of lending, there is a close nexus between banks, financial institutions and moneylenders. In the chapter on Banking Regulation we have recommended that the jurisdiction to regulate moneylenders should either vest with the Union or with both the Union and the States (the former having overriding powers), by the subject being transferred to the Union List, or the Concurrent List, as the case may be. The Study Group has also recommended that there should be some similarity in the treatment meted out to all cash lenders. In this context, particular reference may be made to the 'moneylenders', and the 'indigenous bankers' who are not carrying on the business of banking.

21.34 At present, since 'banking' is a Union subject, and the States have exclusive jurisdiction over 'moneylending', two different authorities regulate the business of those who lend with their own resources, and those who lend *inter alia* with resources accepted as deposits from the public. The lending policy of banks is supervised by the monetary authority ; but, the moneylending legislation of the States does not provide for any agency which could effectively regulate the lending operation of moneylenders. While the deposit-taking function is the dividing line between 'moneylending' and 'banking', there should not be a wide disparity in the regulation applicable to the lending function of those doing 'banking' and those doing 'moneylending'. Hence, there should be a review of the laws governing 'moneylending' with a view to eliminate the wide disparity in the regulation that is now present.

21.35 Indigenous bankers who do not accept deposits from the public but who deal in usance hundis (or usance bills) are a class by themselves. This sort of business is usually described as 'Multani business'. Those who carry on such business make advances against usance promissory notes or bills (called 'Muddati Hundis') and later on rediscount them with banks. There is need for regulating this form of business.

21.36 The Multani business is a form of 'moneylending' and hence it is only the States who have now the jurisdiction to regulate such business. The Study Group has referred to the French Law of June 14, 1941 as an example and recommended that a model legislation may be framed for the consideration of the States regarding the regulation of the business of lending against hundis. Pending the implementation of our recommendation to vest the Union with the responsibility to regulate 'moneylending', a model legislation should be drafted for the consideration of the States for the regulation of the Multani business. In the chapter on Indigenous Bankers we have dealt with the nature of the regulation that should govern the Multani business.

SECTION 3 — LAWS STILL UNDER REVIEW BY THE STUDY GROUP

21.37 The laws relating to negotiable instruments and negotiable documents and those relating to loans and advances, the review of the laws relating to non-banking financial intermediaries and an examination of the provisions of the Company Law insofar as they have a bearing on the working of the banking system are the major fields that still remain to be covered on the laws affecting banking. In Chapter 8 of the Study Group's report on Banking Legislation and in a subsequent communication to the Commission from the Chairman of the Study Group, the nature of the questions arising for consideration while reviewing these laws has been indicated. The Study Group has issued a comprehensive questionnaire *inter alia* to technical and other professional bodies. While many banks and others have offered their views, the other technical bodies required more time to place their views before the Study Group. In view of the technical and comprehensive nature of the review undertaken by the Study Group, the review of these laws is not complete. The Commission has requested the Government to make arrangements for the continuance of the review. In addition to setting out the stage of the review, undertaken by the Study Group, of such laws, we have indicated in this Section the issues arising for consideration. In the Commission's view, there is an urgent need for a comprehensive review of these laws with a view to rationalising them.

(*i*) *The Laws Relating to Negotiable Instruments and Negotiable Documents*

21.38 The laws relating to negotiable instruments and negotiable documents are of vital concern to those carrying on banking, especially the

banks. By 'negotiable instruments and documents' we refer to the conventional negotiable instruments such as cheques, drafts, bills and notes, the indigenous negotiable instruments, namely, hundis, the negotiable instruments for payment of money not in the nature of cheques, drafts, bills or notes, such as debentures, bonds issued by companies, bearer bonds, bearer scrips, etc., and the documents of title to goods which are negotiable. Both at the international level and at the national level in other countries, as part of the process of reviewing and modernising these laws, significant developments have taken place. Our laws have to be reviewed in the light of these developments.

21.39 There is international concern over the laws relating to negotiable instruments since these laws have a vital bearing on the flow of international commerce and trade. The United Nations Commission on International Trade Law (UNCITRAL) and the Commission on Banking Technique and Practice of the International Chamber of Commerce are taking steps to standardise the rules and reconcile the differences in the national laws relating to negotiable instruments. Considerable work has also been done earlier by the Geneva Conventions held under the auspices of the League of Nations. It is needless to say that banking transactions would be expedited and the cause of banking, trade and commerce furthered if the laws relating to negotiable instruments could be rationalised and rules applicable thereto made simple. In reviewing these laws in our country, it is necessary to take note of the work done by these international agencies.

21.40 As regards the developments in other countries at the national level, we may refer to the provisions of the Cheques Act, 1957 of the U.K., Article 3 of the Uniform Commercial Code of the U.S.A. which deals with Commercial Paper, and Article 4 of that Code which deals with the law relating to bank deposits and collections. The provisions of the Cheques Act, 1957, have been in force in the U.K. for quite a number of years. They avoid labour considerably and save the cost of banks in the handling of negotiable instruments. The Uniform Negotiable Instruments Law in the U.S.A. has been revised and has yielded place to Article 3 of the Uniform Commercial Code.

21.41 As early as 1958 the Law Commission has given its Report on the Negotiable Instruments Act, 1881, of our country, revision of which has been considered as long overdue. But then, that Commission could not make any recommendation on the feasibility of adopting in India provisions similar to those found in the Cheques Act of the U.K., since it felt that sufficient experience had not by then been gained even in the U.K. regarding the practical working of the provisions of the said enactment. The Law Commission could consider only the provisions of the Uniform Negotiable Instruments Law of the U.S.A. which has, as stated above, subsequently yielded place to Article 3 of the Uniform Commercial Code.

21.42 A major question for enhancing the status of cheques relates to the making of appropriate provisions which would deter the issue of cheques when there is no amount, or when the cheque is drawn for an amount in excess of the amount available in the account for drawal. The provisions of the Cheques Act of the U.K. and of Article 3 of the Uniform Commercial Code should be considered with a view to the application of similar provisions in India. The questions of the necessity or desirability of making a provision for certification of cheques, the issue of cheques with receipt forms attached thereto, the legal protection that should be available to banks when cheques are presented for collection without crossing, the effect to be given for cheques crossed 'account payee' or 'not negotiable', the making of provision for crossing in relation to negotiable instruments other than cheques are some of the matters that require consideration.

21.43 The governing provisions relating to bank deposits and collections are now found scattered at different places with different consequences. There is also want of uniformity in the applicable rules. In view of the large volume of cheques handled by banks and the country-wide nature of bank collection process, the question of codifying the law relating to bank deposits and collections has to be taken up.

21.44 In the chapter on Bank Operating Methods and Procedures, we have stated that it is necessary to dispense with the formality of identification in respect of instruments for small amounts, except in cases where there are reasonable grounds to suspect that the presentor is not entitled to receive payment. The legal aspects of this question have to be gone into and the provisions of law have to be suitably amended, if necessary.

21.45 The question of codifying the practices and usages applicable to indigenous negotiable instruments, such as hundis, or otherwise appropriately dealing with such class of instruments has been engaging the attention of law makers in India since 1879. But, at that time, the Committee which went into the Negotiable Instruments Bill, which ultimately resulted in the Act of 1881, felt that these usages would voluntarily be given up and that there would be no need to deal specially with the indigenous negotiable instruments. However, these instruments have continued to stay. A substantial proportion of trade and commerce is financed by means of the indigenous negotiable instruments. The Law Commission, in its Report, recognised the role of the indigenous negotiable instruments, but could not standardise the rules applicable to them with a view to bring them within the framework of the codified law.

21.46 We do not favour the discontinuance of indigenous negotiable instruments not coming within the scope of the Negotiable Instruments Act. In the chapter on Indigenous Bankers we have suggested codification of the peculiar incidents and usages and bringing them within the Negotiable In-

struments Act. We have also suggested the evolving of standard forms of Darshani (Sight) and Muddati (Usance) types of hundis. The Study Group on Indigenous Bankers has felt that the Study Group reviewing laws affecting banking could suggest the usages and incidents applicable to the different types of indigenous negotiable instruments which could be given legal recognition and those which are beyond the pale of legal sanction.

21.47 The question of codifying the law relating to the negotiation of negotiable documents like debentures, bonds issued by companies, bearer bonds, bearer scrips, bearer debentures, etc., for the payment of money has to be enquired into in the light of the provisions of Article 8 of the Uniform Commercial Code of the U.S.A. which merit consideration. The trend now is to increase the types of negotiable instruments for facilitating trade and commerce, *e.g.*, negotiable certificates of deposits now in vogue in other countries, and for this, appropriate measures have to be recommended.

21.48 Documents of title to goods and the laws applicable to them are of vital concern to banking, trade and commerce in view of their implications for financing the storage and movement of goods. The study undertaken by the Study Group so far has revealed that the unsettled state of the laws relating to documents of title to goods is the main reason for the unpopularity of advances by banks against such documents. A decision of the Mysore High Court has focussed attention on the doubtful status of truck receipts as documents of title to goods. The status of warehouse receipts as documents of title to goods in India has not been fully gone into. The feasibility of the laws being amended to provide for the issue of documents of title to goods which are specified in terms of units of particular nature or description but which are not segregated and kept separately (fungible goods) should be considered. The forms of carriers' receipts, *e.g.*, bill of lading, truck receipt, air consignment note, are not now standardised and the rules as to negotiation of such documents are not settled. The essential features that should be insisted upon for warehouse receipts, delivery orders and such other documents should be laid down. Article 7 of the Uniform Commercial Code of the U.S.A. has consolidated and revised the laws relating to negotiation of documents of title to goods. The provisions of the said Article, as also the desirability of having separate legislation on the lines of Article 7, should be considered while reviewing the laws governing the negotiation of documents of title to goods.

(ii) Laws Relating to Loans and Advances

21.49 The Indian Central Banking Enquiry Committee, the Provincial Committees, the Ceylon Banking Commission and other authorities have stressed on the need to evolve a rational, adaptable and simple scheme of laws relating to the grant of loans and advances, whether such credit is allowed on a secured or on an unsecured basis. If the laws relating to secured advances do not adequately safeguard the interests of, or are not conducive to the easy

realisation of the amounts lent by, and owing to, banks and financial institutions, they have to either

(*a*) insist on the borrower furnishing security that will be disproportionately high to the quantum of the credit given, or

(*b*) run the risk of the related credit becoming sticky or bad.

There is considerable room for improvement of the laws relating to secured transactions in India, in the light of the significant and far-reaching revision of such laws in other countries, especially the U.S.A. There is also need for special provisions that would go to reduce the cost of, and facilitate the recovery of loans and advances by, banks and financial institutions. In general, the laws relating to loans and advances could be classified as those pertaining to advances against immovable properties, against charge on movable assets, against fixtures, guarantees, letters of credit and the provisions applicable to unsecured advances.

21.50 Generally, banks are reluctant to lend to unorganised business or individuals against charge over immovable assets, especially agricultural lands. However, while extending credit to meet the requirements of agriculture, there is bound to be considerable reliance on land as security, wholly or partially. The land tenures, as modified by the land reform measures, do not give all types of agriculturists an interest in the land which they could freely charge for their credit needs. There is also local legislation specifying ceilings on, and against fragmentation of, holding of agricultural lands. The debt relief legislation and the moneylending legislation also affect, to an extent, the obtaining of bank finance by agriculturists. The facilities available for investigation of title in general, and the ascertainment of encumbrances on land, notice of *lis pendens*, etc., in particular, require examination. The system of registration of title deeds needs examination, and the question of issuing title deeds which would facilitate the ready ascertainment of the encumbrances on the land has to be considered. The provisions of the Transfer of Property Act and the other relevant laws pertaining to the cost of creation and the enforcement of charges over immovable property have to be reviewed. There are special provisions in favour of co-operative societies and in the context of commercial banks lending to agriculture, the question of extending similar provisions to commercial banks has to be considered. The Report of the Expert Group constituted by the Reserve Bank to consider the State laws affecting commercial banks lending to agriculture has gone into this question, and in framing its questionnaire on the laws relating to loans and advances, the Study Group has taken note of the recommendations of the Expert Group. We should also take note of the handicaps faced by co-operative banks in carrying on their business *vis-a-vis* commercial banks carrying on similar business. It is also necessary to streamline the procedures to be adopted while making advances against immovable properties and to ensure that such procedures are not cumbersome but are simple and leave scope for commercial flexibility.

21.51 There is no law as such in India dealing with lending against charge on movable assets. The usual documents obtained by banks do not help to decide rationally and readily the legal effect and the reconciliation of the claims of third parties who deal with the goods with or without notice of the claims of the bank in respect of the goods, the applicability of the reputed ownership clause in the event of the insolvency of the borrower and such other questions which frequently fall for determination. The documents that are now taken evidence the creation of the various forms of security interest, *e.g.*, pledge, hypothecation charge, floating charge, trust receipt, hire purchase interest. These multifarious devices decide the rights of parties having regard to the form and not the substance of the arrangement. The technicalities of such arrangements are not conducive to the safeguarding of the interests of the lending institution, or for that matter to reconciling the interests of third parties *vis-a-vis* the lending institution. Where the possession or control over the goods is not with the lending institution, the nature of the charge, namely, whether it creates only a personal claim or gives an interest in the property itself, comes in for question. In cases of hypothecation agreements over stock-in-trade, the question whether a hypothecation or a floating charge is created becomes a matter of controversy. In the case of advance against shares, there is an uncertainty as to whether the transaction evidences a pledge or a mortgage of shares. In all these cases, the rights of parties vary depending on the form of the transaction. The availability of floating charge as an effective medium of creating a security interest with reference to non-corporate bodies is a matter in doubt. While there is provision for registration of a charge on the movable property (which is not a pledge) of a borrower-company, there is no provision for registration of such charges on the assets of non-company borrowers. In the chapter on Bank Operating Methods and Procedures, we have recommended that the feasibility of creating a suitable machinery for registration of charge on moveables, with a simple and less expensive procedure for its verification, has to be examined from legal as well as practical angles.

21.52 The Indian Central Banking Enquiry Committee wanted the legal status of trust receipts to be examined. It is a matter of some concern that though the need for improving the status of trust receipts has been felt even as early as 1931, still this has not resulted in any positive action. The present position seems to be that advances against trust receipts do not create any trust, that goods released against trust receipts would be affected by the reputed ownership clause under the insolvency laws in India that the borrower may validly create an unauthorised pledge of the documents of title to goods released to him under a trust receipt, and that for any wrongful dealing with the goods it may not be possible to prosecute the borrower. In the result, from the bankers' point of view, the trust receipt is considered practically valueless as a document creating a security interest in their favour. However, granting of trust receipt facilities by banks in India (the laws relating thereto providing for an effective security interest being granted in favour of the

bank) would stimulate the commercial development of the comparatively smaller traders and dealers. As the legal status of the trust receipt is unsatisfactory, banks are treating advances against trust receipts as unsecured and are confining the facility only to well-established and reputed customers.

21.53 On the law relating to instalment credits, the Hire Purchase Bill, 1968, in our country, does not take note of the recent developments in the U.K., the U.S.A. and in other countries. This measure requires further consideration.

21.54 The scheme of the Uniform Trust Receipts Acts of the U.S.A., enacted in that country to improve the legal status of the trust receipts has been further improved after a substantial review of the matter by the American Law Institute and the National Conference of Commissioners on Uniform State Laws. This has resulted in Article 9 of the Uniform Commercial Code. Article 9 is considered to be a great landmark in the law relating to secured financing and it has been appreciated for its conceptual unity. Article 9 covers all forms of financing against the security of movable assets including fixtures. The Ontario Personal Property Security Act, 1957, the Uniform Personal Property Security Law proposed to be enacted in Canada, the Sale and Loan Act and the Consumer Sale and Loan Act recommended for adoption in the U.K. by the Crowther Committee are all linked with the basic idea underlying Article 9 of the Uniform Commercial Code of the U.S.A. Hence, in the light of the developments elsewhere and the need to rationalise our own credit laws, it is necessary to have a comprehensive review of the whole question in depth. As a result of its studies, the Study Group has noted that what has to be done is the framing of a scheme by legislation to deal with possessory and non-possessory charges over movable assets. For this, the Study Group has identified and raised the particular questions that arise for consideration with reference to hypothecation, floating charge, pledge, trust receipt, etc., and also with reference to the framing of a comprehensive legislation regarding charges on moveables.

21.55 The law relating to charge on fixtures at present is in a highly unsatisfactory position. Advances against fixtures are now clouded by the question whether or not the relative asset should be considered as immovable or a movable asset. The rights of parties are likely to be jeopardised if subsequently the view held by the parties as to whether the asset is moveable or immoveable is not considered as correct judicially. More or less on the same set of facts, judicial decisions have not come forward with the same result. In Article 9 of the Uniform Commercial Code, the rights and liabilities of parties, and the claims of third parties in relation to the charged asset, are considered and dealt with independent of the question whether or not the fixture can be regarded either as moveable or immoveable. Such an approach goes a long way to facilitate the granting of bank credit against machinery, pump sets and other farm equipments which are embedded in the soil.

21.56 The business of banking is also concerned with the laws relating to the granting of credit either on the guarantee of third parties or on the assurance of the borrower himself regarding their repayment and recovery. Providing of guarantees by banks assumes importance both at the international and at the national levels. The United Nations Commission on International Trade Law and the International Chamber of Commerce have suggested certain guidelines and have undertaken some special studies. The need for some special provisions with reference to bank guarantees has been felt in our country, especially with reference to guarantees issued by banks in favour of Government Departments. The Study Group has asked for the views of technical bodies on the aforesaid matters. The provisions of the Uniform Customs and Practice for Documentary Credits drawn up by the International Chamber of Commerce are now sought to be applied with reference to international transactions backed by the issue of letters of credit. But the efficacy of these provisions rests on contractual basis. Whether this basis should be changed and a statutory basis given should be considered. Article 5 of the Uniform Commercial Code of the U.S.A. has codified the rules applicable to letters of credit, especially with reference to internal transactions. The law relating to letters of credit should be placed on a satisfactory footing and necessary steps taken to reduce the scope for litigation and for promotion of trade relations.

21.57 The concept of security is undergoing a change in our country. From the standard of the creditworthiness of the borrower, which was essentially related to his ability to offer adequate security of assets, we are moving towards the concept of creditworthiness of the purpose for which credit is given. If this trend is to be strengthened, it is necessary to evolve a legal framework that would help to ensure that credit given even on an unsecured basis is not allowed to fail. In this perspective, the Study Group has taken up for consideration a number of questions, such as the giving of adequate legal basis for advances against the security of negative liens or negative pledges. A negative pledge or a negative lien is substantially relied on in the United States, especially by the term-lending institutions, with reference to their advances. But, in our country, now it is not of any practical significance as the negative lien does not operate as a positive charge and there are no adequate means to make third parties have knowledge of the lien in favour of the banks. These aspects should be gone into.

21.58 There are certain special provisions applicable to co-operative societies, the Industrial Finance Corporation of India and the State Financial Corporations, which facilitate the expeditious recovery of the loan, if necessary, by enforcing the charge in favour of such a lending institution. Having regard to the purpose for which bank credits are now channelised, the question of making suitable special provisions which would be available to all banks has to be examined.

21.59 The Co-operative Societies Acts provide for the Registrars, or other appropriate authorities constituted under the said enactments, arbitrating in disputes between the co-operative societies and their members. On the same analogy, it is necessary to consider the setting up of an appropriate special machinery for deciding on the disputes between commercial banks and their customers. Even at the international level, the machinery for arbitration is considered as highly important for promoting trade and commerce between countries. The Court of Arbitration of the International Chamber of Commerce has been playing an effective role and increasing number of disputes are referred to it for settlement. Reference may also be made in this connection to the seminar held under the auspices of the Indian Council of Arbitration, where suggestions have been made in this matter and the type of amendments to the arbitration laws in India indicated. The question of constituting commercial courts which would deal with, the settlement of disputes relating to, and the recovery of, loans and advances granted by banks and financial institutions also merits caeful consideration.

(iii) *The Laws Relating to Financial Intermediaries Which are not Doing Banking*

21.60 The Study Group has also undertaken the review of the laws relating to the non-banking financial intermediaries. The Banking Commission's Study Group on Non-Banking Financial Intermediaries and the Study Group on Indigenous Bankers have given their reports on the role of the non-banking financial intermediaries including indigenous bankers. In the light of the recommendations of these two Study Groups, our recommendations in the chapters on Non-Banking Financial Intermediaries and Indigenous Bankers and other relevant material that may be forthcoming,the laws to be applied with reference to the carrying on of business by non-banking financial intermediaries including indigenous bankers have to be reviewed. The review of the legislation relating to chit funds, and the framing of a scheme for the other non-banking financial intermediaries that may not come within the scope of the banking regulation are some of the matters which have to be considered while dealing with the review of the laws relating to non-banking financial intermediaries.

(iv) *The Effect of the Provisions of the Company Law on the Carrying on of the Business of Banking*

21.61 The Study Group has also been asked to go into the effect of the provisions of the Company Law insofar as they have a bearing on the working of the banking system. Two aspects come in for consideration in this regard. The first would relate to *companies* doing 'banking' ; with reference to them, the provisions bringing in a sort of dual control over them by the Reserve Bank and the Registrars of Companies have to be reviewed. Secondly, by reason of banks and banking undertakings dealing with companies, the

special requirements that are to be complied with, or to be observed, and the effect of such provisions on banking business have to be considered.

SECTION 4 — SETTING UP OF A SPECIAL MACHINERY FOR CONSTANTLY REVIEWING LAWS AFFECTING BANKING

21.62 The Crowther Committee has felt the need for widespread reforms as regards credit laws in the U.K. Both at the international level, and at the national level in other countries, there have been efforts for modernising and reviewing the laws affecting banking. At the international level, the United Nations Commission on International Trade Law established in 1956 is trying to evolve rules for international sale of goods, international payments including payments by negotiable instruments, bankers' commercial credit, guarantees and services, international commercial arbitration, international legislation on shipping, etc. The International Chamber of Commerce has set up a permanent Commission to deal with Banking Technique and Practice. This body is constantly going into the provisions of the various laws :affecting banking. The trend at the international level is to modernise and bring about uniformity of laws with which banks and bankers are vitally concerned. Any review of the laws relating to and affecting banking has to take note of these developments which provide the necessary background for the review of such laws in India.

21.63 At the national level, we may refer to the work of the Banking Law Commission in Pennsylvania, which has resulted in the enactment of the Pennsylvania Banking Code we referred to in the chapter on Banking Regulation. The great efforts made in the U.S.A. to streamline the laws affecting transactions on the security of personal property, which have resulted in the framing of the Uniform Commercial Code, need special mention. This Code is the product of the joint efforts of the National Conference of Commissioners on Uniform State Laws and of the American Law Institute. This Code has received much acclaim and considerable recognition in other developed countries. The scheme of that Code merits serious consideration in India while dealing with the deficiencies of our credit laws. We have earlier referred to certain specific Articles of the Uniform Commercial Code. A permanent Editorial Board has been set up in the U.S.A. to maintain a constant review of the provisions of the Code. The Joint Committee on Continuing Legal Education of the American Law Institute and the American Bar Association is also conducting courses of study for bankers and others concerned with the working of the Code. The National Conference of Commissioners on Uniform State Laws have also brought forth in the U.S.A. the 'Uniform Consumer Credit Code'. Thus, there are active bodies entrusted solely with the task of constantly reviewing credit laws in the U.S.A.

21.64 In Canada, the State of Ontario has enacted the Personal Property Security Act, 1967, which is closely modelled on the pattern of Article 9 of

the Uniform Commercial Code. A Committee of the Commercial Law Section of the Canadian Bar Association has drafted a Uniform Personal Property Security Act for adoption in Canada. Certain provisions of the Canadian Bank Act, especially section 88, merit consideration in India with a view to facilitate the obtaining of charge on the assets of borrowers by banks and financial institutions at relatively much less cost.

21.65 In the U.K., the enacting of the Cheques Act, 1957, the consolidation of the Hire Purchase legislation under the Hire Purchase Act, 1955, and the Report of the Crowther Committee are all landmarks which deserve consideration in our country while we deal with comparable laws in India. The Crowther Committee has emphasised that unless there is a regular review of the credit laws, large sectors of credit laws would become increasingly inapt and divorced from reality.

21.66 In the interest of banking development and in public interest, there should be a constant review in India of the laws concerning and affecting banks which fall either within the ambit of the Union List or the State List or the Concurrent List of the 7th Schedule to our Constitution.[1] With reference to such laws, the review should include

(*i*) the examination of the prevailing laws concerning and affecting banking, of the Union and of the States with a view to bringing them in line with the developments in other countries and having regard to the local conditions ;

(*ii*) the different States being apprised of the developments in other countries in regard to such laws ;

(*iii*) assisting in the taking of particular steps by the different States for promoting legislation ; and

(*iv*) providing a forum for mutual discussions and periodical reviews of the laws in force in the Union and in the different States on the subjects with which bankers and banking are concerned.

21.67 Having regard to the conditions in India and the fact that banking system is expected to fulfil certain social and economic objectives, a special machinery should be set up in our country for such constant review of the laws concerning and affecting banking, since such review could not be left to be considered along with the review of the other laws of the country. Hence, we recommend the setting up of a special machinery. This should be set up as early as possible by the Central Government by constituting a special body for reviewing such laws. This reviewing body should be presided over by a jurist, and its members should be drawn from the legal profes-

[1] See also Chapter 22.

sion, from legal experts who have worked or are working with banks, and from experienced bankers and others possessing expert knowledge and experience considered necessary or useful for such review. The Reserve Bank may be asked to give such assisance as may be required by the reviewing body. This body should be entrusted with the task of reviewing the laws concerning and affecting banking and falling within the jurisdiction of the Union and of the States. These laws are closely connected with the commercial laws of the country. A change in the banking laws may require a change in the commercial laws and *vice versa*. The reviewing body should concern itself with the whole field and suggest appropriate measures.

Chapter 22

BANKING RESEARCH AND EDUCATION

Introductory

22.1 In the earlier chapters, the Commission, as required by its terms of reference, reviewed and made recommendations on specific fields in the light of its findings. The terms of reference also urge the Commission to make recommendations on any other related subject matter as it may consider germane to the subject of enquiry. In the course of its investigation in various subjects relating to banking and allied matters, the Commission found that this field has generally been neglected by research workers. The Commission itself sponsored a number of research projects[1] and found the effort very useful. Its experience indicates that useful research work can be done in these fields provided appropriate steps are taken to organise such research. In this chapter, we shall deal with the steps that are needed to improve the position regarding research and education in banking.

22.2 Banking, although a specialised field, is interdisciplinary in its approach involving, besides the principles and techniques of banking, the study of different subjects such as accounting and book-keeping, economics, law and management. With the increasing complexity of modern banking operations and the growing involvement of banks in various types of specialised fields of lending and services, banking as a subject has increasingly to deal with these related disciplines. This trend, in turn, has led to the need for specialisation within the field of banking. In planning banking research and education, these aspects should be taken into account.

Banking Research

22.3 Research in various fields of banking is a *sine qua non* for a sound and efficient banking system. It has to be a continuous process since many areas of banking have to be constantly reviewed and studied in the face of changing environment and needs of the economy. Accordingly, environmental studies have direct bearing on banking and there has to be constant liaison between research on banking proper and environmental research of a broader nature. This is more so since the banking system with its increasing role as an instrument for planned economic development is expected, on the

[1] See Appendix IV.

one hand, to be responsive to the requirements of development and, on the other, to influence the growth process itself. Conduct of research on banking problems is also closely linked to training[1] in the sense that it provides training material. Training courses are generally tailored to the need of job requirements and have to be suitably amended from time to time on the basis of research findings.

Present State of Banking Research in India

22.4 An overall view of the present state of research in banking—commercial as well as co-operative banking — can be had by reviewing briefly the institutions undertaking this kind of research and the nature of work done by them. Among the important institutions may be mentioned the Reserve Bank of India, the Economic and Statistics Departments of the State Bank of India and the 14 nationalised banks, the National Institute of Bank Management (NIBM), the Indian Banks' Association (IBA), Vaikunth Mehta National Institute of Co-operative Management (VMNICM), the commerce and economic faculties (or departments) of various universities as well as agricultural universities.

22.5 The Reserve Bank through its Economic Department and the Department of Statistics has over the years collected and analysed useful series of banking, monetary and other financial statistics. In addition, it has conducted special surveys to bridge statistical gaps in particular topics. From time to time special studies are carried out on theoretical and applied problems in the fields of monetary economics, banking, public finance, planning, agricultural economics, international trade and international finance. The results of the research work undertaken or sponsored by the Reserve Bank are generally made available to the public by publishing them in its own Bulletin or separately.

22.6 The Commission through its questionnaire to commercial banks sought information regarding the functions and responsibilities of various departments in each bank. On the basis of information supplied by the banks it was found that only the State Bank of India and the 14 nationalised banks have separate Economic Departments[2] and that many of these Departments carry out only a few of the functions which are generally expected of an economic department. With a few exceptions, it appears that the work done by these departments is rather limited in its scope. At the same time, it may be mentioned that quite a number of other responding banks stated having specialised departments or cells such as the agricultural finance cell and the small scale industries finance department ; these departments at times undertake economic studies of the financing needs of these priority sectors. On the basis of answers provided by a few banks having relatively

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1 The problem of training is dealt with in Chapter 14 on Management Development in Banks.
2 The Departments are referred to by different names in different banks.

better organised economic departments and the discussions which the Commission had with the chiefs of these departments it appears that these departments perform one or the other of the following functions :

(*i*) compilation, processing and analysis of statistical information relating to the individual bank, the banking system as a whole, and also other economic statistics of interest to the bank ;

(*ii*) conducting market research and surveys which offer scope for development of the bank ;

(*iii*) preparation of seasonal credit forecasts ;

(*iv*) making special studies of specific matters referred to the department by the management ; and

(*v*) preparation and publication of the bank's periodical, review or bulletin.

22.7 The National Institute of Bank Management which was set up in June 1968 initiated a number of research projects on various aspects of banking. These projects fall into the following three main groups : (1) environmental studies related to monetary economics, resources estimation, credit planning, marketing strategy, area development and developmental banking in the fields of agriculture, small scale industries and export ; (2) management studies related to structural and organisational issues, management information and control systems, industrial relations and personnel management ; and (3) credit and finance including portfolio management, credit management and credit risk analysis.

22.8 The Indian Banks' Association is being reorganised so that it can play a more useful and effective role in helping the banks in solving their operational, procedural, administrative, organisational, technical and legal problems. In doing so, the aim of the Association is to pool talents for the purpose of analysing and interpreting specific problems for the benefit of everyone connected with banking. The Association is now engaged in bringing together the expertise available with various banks for the purpose of work simplification in order to ensure that the systems and procedures followed by banks in their daily operations—the forms, methods and organisation become efficient and economical. Development, changes and codification of the systems and procedures are being done and the information is to be distributed through a series of special studies published on a regular basis. Various other operational and procedural measures are also being worked out with a view to ensuring that remittances and collections are received promptly. The Association is also making an effort to evolve a uniform and standard code of law and practice of banking.

22.9 In the field of research in co-operative banking, Vaikunth Mehta National Institute of Co-operative Management is trying to develop itself as

a centre for research both in fundamental as well as operational aspects of co-operation. The Institute which has a separate research wing undertakes extensive research in different areas such as co-operative economics, co-operative sociology, co-operative management, and so on. The research studies are designed to throw light on the working of co-operative institutions and also serve as useful teaching material for the different courses conducted at the Institute. A number of these studies have already been published. The various co-operative training colleges in the country have no systematic arrangement as such for conducting research in co-operative banking ; however, most of these colleges undertake case studies of certain aspects of co-operative movement including agricultural credit and banking with the help of their teaching staff.

22.10 In most of the commerce and economic faculties of various universities, the teaching staff generally conducts research in their respective fields of specialisation on their own. In certain universities, the Economic Department has a separate research wing where banking forms part of the area of research. Many of the topics of research chosen by students for their Ph.D. degree relate to banking and allied problems. Agricultural universities in various States generally undertake research in the sphere of farm management and diversification of farm activities, development and use of improved seeds, fertilisers, pesticides and farm implements, and agricultural credit. Some of these universities make an effort to disseminate the results of their research through workshops, seminars, radio talks, training courses, printed literature and articles in newspapers and magazines.

22.11 Besides the above institutions associated with banking research, there are a number of other institutions which conduct studies from which banks may ultimately derive benefit. The Indian Institute of Foreign Trade (IIFT), for example, which is a specialised institution, conducts various studies relating to export promotion including the assessment of export potential of various Indian products and the financing aspects of foreign trade. The National Council of Applied Economic Research (NCAER) has undertaken the techno-economic surveys of various States in India which constitute important environmental studies of use to banks operating in these regions and willing to participate in their economic development.

22.12 Finally, it may be essential to refer to the consultancy work undertaken by the various research institutions on behalf of banks. Many of the institutions mentioned above as well as Institutes of Management such as Indian Institute of Management (Ahmedabad), Jamnalal Bajaj Institute of Management Studies (Bombay), etc., undertake such work. In consultancy projects, the effort is mostly directed towards specific problems posed by a bank. The recourse to a consultant arises whenever a particular bank is faced with a problem which it is not in a position to solve with the help of its own organisation. Many of the projects sponsored under consultancy

often serve as models or examples which other banks can follow. In addition to being useful for the sponsoring banks, these consultancy projects also provide research and training material for the institutions undertaking them. The NIBM, for instance, has offered consultancy services to some commercial banks for the selection of candidates using the battery of tests which it has developed. Besides, the Institute is helping a number of nationalised banks to formulate and implement business and management development plans which involve restructuring of the bank to suit its changed character, and developing training methods to meet the future needs.

22.13 Thus, there are at present a number of institutions which undertake research in banking. Specialised research in banking is, however, of recent origin in India. In the past, most of the published research studies by scholars in universities and other academic institutions centred on the field of money and credit, and banking was considered only in the broader perspective of monetary policy. Various developments in the late sixties (*viz.*, the introduction of social control over banks with its emphasis on lending to priority sectors, the subsequent nationalisation of 14 banks, the realisation of the need for credit planning, and the effort of the monetary authority to extend the geographical and functional coverage of commercial banks) have helped to focus the attention of the general public and academic bodies on problems of banking. Besides, in many cases, studies in banking suffer from uncritical use of methods of analysis borrowed from abroad without finding out whether they are applicable to Indian conditions and Indian data.

General Observations and Recommendations

22.14 The benefits of research activities are not in many respects subject to measurement and hence not capable of being precisely evaluated. The factors of risk and uncertainty play an important role in any cost-benefit analysis of research activities in general. It is particularly true of research in social sciences as compared with research in physical sciences. This is why industrial firms generally take to research and development (R & D) much earlier than banks. It would, therefore, be useful to indicate the broad objectives R & D of in banking and allied fields so as to provide the basis for initiating research projects of practical utility to banks. The objectives of banking research and development should include the following : (*i*) to study the manner in which the banking system as a whole functions in the context of the problems of development of the Indian economy; case studies may be undertaken to find out the effect of bank finance on the development of particular regions and sectors and on the creation of employment ; (*ii*) to study the inter-relationship between the working of the different parts of the banking system and the special features of the contributions made by these parts to economic development ; (*iii*) to discover and devise methods to develop banking habit ; (*iv*) to find ways of improving the

quality of bank services ; (*v*) to assist in creating new opportunities for mobilisation of savings and in extending the geographical and functional coverage of banks; (*vi*) to bring about reduction in costs — capital as well as operational costs ; and (*vii*) to study the impact of loan policies of banks on its environment.

22.15 In the course of its investigation on various aspects of banking and allied matters, the Commission encountered a number of problems on which detailed research may be required. The Commission initiated work on some of these through the Study Groups appointed by it, in the special cell of the Reserve Bank working for the Commission and by commissioning scholars in academic institutions to work on special projects.[1] Further work needs to be done in all these fields by way of collecting more data and subjecting them to more comprehensive analysis than could be done within the limited time at the disposal of the Commission. Moreover, there is a need for studying such matters as changes in the pattern of bank portfolios, in the pattern of the public holdings of different types of financial assets, the constraints in bank lending to various sectors, the effects of the administered price system for bank services and the impact of the operation of the liquidity ratios on the working of the banking system and the implications of all these for the rate of growth of the economy. An area in which research would yield rich dividends is study in depth of the factors, such as monetary and non-monetary benefits, which contribute to the sense of 'involvement' of bank staff, and the effect of such factors on the productivity of workers. In this connection, it will also be useful to examine the conditions under which economic use can be made of computers and other mechanical aids in banking in spite of availability of large man-power in India. On the lines of the Reports of the Commission's Study Group on Indigenous Bankers and its Study Group on Non-Banking Financial Intermediaries, it should be possible to study further in depth the operations of shroffs and multanis and non-banking financial institutions like nidhis, chit funds, hire-purchase companies, investment companies, and loan and finance institutions. Studies which throw light on the end use of credit made available by banks and other lending institutions will fill a gap in the existing information. Also, it would be useful to undertake the writing of history of some individual commercial banks which might throw light on the evolutionary aspects of Indian commercial banks.

22.16 The Commission's Study Group on Banking Costs has specifically recommended that methods of cost and profitability analysis appropriate to the conditions under which banks have to function in India should be developed further and studies of the type it had undertaken continued on a regular basis. Besides, the Group has indicated a number of specific subjects where further research study is needed. For instance, it has noted that greater insight can be gained into the relationship between output and costs through

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[1] For the list of projects sponsored by the Commission, see Appendix IV.

statistical analysis of the data, and that research should be conducted on various aspects of these relationships bank-wise in order to find out the scope for increasing banks' profitability by increasing the business of their branches. Similarly, research is needed to ascertain the direction and the magnitude of (*a*) the effects of changes in interest rates and service charges on the demand for banks' services, and (*b*) the effects on servicing costs of deposits because of shifts in the distribution of deposits between current, savings and fixed deposits brought about by changes in deposit rates.

22.17 The application of recent innovations in management and analytical techniques to problems of banking involves complex mathematical and statistical calculations. When the chain of computer centres at various places is set up, as recommended by the Commission in Chapter 13 on Information System for Banks, it can be used with advantage for this purpose.

22.18 Apart from published statistics, information for purposes of research may have to be culled out from the books of banks. Banks, under the obligation to maintain secrecy regarding the affairs of their customers, are unwilling to furnish the required data even for purposes of research. The Commission in the chapter on Other Laws Affecting Banking has recommended that regarding the affairs of individual customers, information relating to period anterior to 50 years and regarding the affairs of corporate entities information relating to a period anterior to 20 years may be furnished by banks for research purposes.[1] Besides, the Commission also recommends that recent information of a general nature regarding the operations of banks which does not involve disclosure of affairs of any individual customers should be made freely available by banks to research scholars and institutions. Such of the data as are found useful for purposes of policy and from the wider angle of keeping the public informed of the manner in which the banking system functions should be included on a regular basis among the published banking statistics brought out by the Reserve Bank.

22.19 To avoid waste and duplication of work in research, it should be ensured that the existing knowledge and the findings of research studies are published and widely distributed without delay. Besides, in many cases, consultancy projects carried out on behalf of one or more banks can also be made available to other banks. For instance, two nationalised banks which had sought the help of the NIBM in the formulation and implementation of management development programme, have agreed to make the information available to other banks. There is also the need for a properly indexed and periodically updated bibliography of articles, books and reports on banking with special reference to India. We understand that the Indian Council of Social Science Research has evolved a scheme to bring out on a regular basis classified bibliography and abstracts of various articles in social sciences

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[1] *vide* Chapter 21, paragraph 21·19.

including the field of money, credit and banking ; the bibliography and abstracts will cover Indian and foreign journals. A special feature of the scheme is that it is expected to cover a wider range of Indian periodicals and journals than hitherto covered by similar schemes in India and abroad. Besides, the IBA is planning to provide, from a vast range of periodicals on banking and finance, abstracts and indices of articles of value and interest to bankers, and also periodical bibliographies of books and publications relating to banking. While these will be useful in keeping all those interested in banking informed about the current work, there is a need to make available to the scholars on the subject important work done in the past. The Commission recommends that there should be a scheme for reprinting certain studies and reports (like the Report of the Indian Central Banking Enquiry Committee) which are in demand but have gone out of print.

22.20 The review of the present state of banking research and institutions associated with it shows that there is a general lack of awareness of the importance of research on laws affecting banking. The Indian Banks' Association has made a small beginning in the study of banking laws as part of banking research. As early as in 1931 the Indian Central Banking Enquiry Committee had noted as follows :

> "The development of the credit system depends not only upon the growth of business and the business relation of the banker and the businessman, but also on the efficiency of a legal system designed to safeguard the rights of individuals and to enforce a prompt fulfilment of contracts."[1]

In the U.K. the Crowther Committee (1971) had also stated as follows :

> "One of the important tasks . . . . will be to ensure that credit law is not allowed to ossify . . . . but is periodically brought up-to-date. This can only be achieved by keeping abreast of social and commercial developments, by maintaining continuous contact with informed opinion and by conducting detailed research . . . ."[2]

The Banking Commission's Study Group to Review Legislation Affecting Banking has suggested the setting up of a special body to be entrusted with the task of reviewing the laws concerning and affecting banking and falling within the jurisdiction either of the Union or of the States. The Commission has endorsed this recommendation in Chapter 21 on Other Laws Affecting Banking.

22.21 With a view to improving the understanding of problems and solving practical problems in banking, there is a need to bring about a close

1 *Report of the Indian Central Banking Enquiry Committee*, Government of India, 1931, p. 386.
2 *Report of the Committee on Consumer Credit*, Volume I, H.M.S.O., London, 1971, p. 390.

contact between economists and practical bankers, between theory and practice. Four decades ago, the Indian Central Banking Enquiry Committee noted as follows :

> "Owing to lack of co-ordination between the banks and the educational institutions there are at present, on the one hand, many men trained in banks in the business of banking but devoid of sound general education and sufficient knowledge of the theory of banking, so that they are not considered fully qualified to hold posts of bank manager or assistant manager. On the other hand, there are graduates well versed in theory but devoid of practical knowledge, who are not readily taken up by banks."[1]

The position does not appear to have changed much over the long span of years. To bring theory and practice together and improve banking research, provision should be made to send economists from universities and research institutions on deputation or for training to banks, and practical bankers in turn can be sent on deputation to universities or research institutions for a period of time. Reciprocal arrangements for training of staff between financial institutions and between universities and financial institutions can be worked out. Such schemes can further the scope of research in banking by bringing theory and practice together.

BANKING EDUCATION

22.22 In Chapter 14 on Management Development, the various training programmes and institutions designed for and attended by bank officers have been examined and measures to improve them have been suggested. There is, however, the problem of imparting proper knowledge of banking to the future employees—the undergraduates or graduate students who may be considering banking as a career. In the following paragraphs, we shall deal with the general as well as the institutional aspects of banking education as distinguished from training programmes and institutions.

22.23 The Indian Central Banking Enquiry Committee (1931) devoted a separate Chapter on "Banking Education" which speaks of the importance of that subject. The Committee had then observed that "no co-ordination of effort exists at present between the Universities and the banks in India".[2] It had arrived at this conclusion after having reviewed the working of institutions providing facilities for the study of commercial subjects, including banking. The kinds of institutions considered then continue to be the only notable ones even today with the difference that their courses have become more widespread either through the increase in their number or through the introduction of correspondence courses by some of them. These institutions can

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1 *Op. cit.*, p. 489.
2 *Op. cit.*, p. 488.

be classified as follows: (1) commercial schools preparing students for a certificate or diploma; (2) secondary schools where commercial subjects are taught as optional subjects or to which separate commercial classes are added; and (3) universities awarding either a special degree in commerce, or the general arts degree involving a study of economics and other allied sciences.

22.24 With the increase in the number of universities, colleges and commercial schools, banking education, which is a branch of higher commercial education is slowly spreading. Correspondingly, the number of students reading for either a diploma or a degree in commercial subjects including banking has been steadily increasing. In fact the number of B. Com. students has been increasing at a much faster rate than the number of students for the B. A. degree. In most of the universities 'Banking and Currency' is a popular elective group for the Master's degree students in Economics.

22.25 The Indian Institute of Bankers conducts its associate examination (CAIIB-Certificated Associate of the Indian Institute of Bankers) for bank employees twice a year in 11 subjects divided into two parts (Part I—five papers and Part II—six papers) in addition to two other diplomas in 'Co-operation' and 'Industrial Finance'. The Institute has arrangements for tuition classes and lecture programmes at its important centres and sub-centres. Further, the Institute has also started correspondence courses in all the subjects for the CAIIB examination. This course is arranged through three institutions in Bombay (Davar's College of Commerce, J.J. College of Commerce and British Institute of Commerce). Under the scheme, these institutions will conduct the course with the help of moderators appointed by the Institute, to ensure that the course is upto the standards prescribed by the Institute. Since this scheme came into operation recently, it is not possible to gauge its performance. It can, however, be said that the scheme should provide enough opportunities to the bank employees in the interior and at remote places to learn and prepare themselves for the examination. Having in view the important role that banks are called upon to play in the financial system of the country and the faster growth expected of them, banking education may have to be suitably reoriented, strengthened and made functional to some extent. Some measures are suggested in this connection in the paragraphs that follow.

22.26 The Indian Central Banking Enquiry Committee had stated that "close co-ordination of effort is essential on the part of the universities, the banks and the institutions engaged in imparting or promoting banking education: (1) to make the courses practical; (2) to provide for practical training; and (3) to arrange for the employment of trained youths in the banks".[1] This statement still holds good today and the Institute of Bankers should explore the possibilities of achieving these objectives. Besides, certain possibili-

[1] *Op. cit.*, p. 489.

ties of making full utilisation of local colleges by bankers can be tried through the good offices of the Institute. National criteria can be drawn on the basis of which certain college courses would qualify as equivalent to diploma of the Institute of Bankers, and the diploma granted by the Institute plus job experience would be regarded as equivalent to certain college degrees. In exploring these possibilities, the rules relating to the CAIIB examination which is at present restricted to bank employees may have to be suitably amended to permit all those with a minimum academic qualification and aspiring for a career in banks, to appear for the same. In all such tie-up arrangements with the local colleges and universities, bank officers of the neighbourhood should assume the responsibility of a training force by forming study teams with a batch of students and acting as co-ordinators. Through such arrangements, the banker can participate in the training, recruitment and development of the local bank personnel.

22.27 Large banks can sponsor Chairs in Banking in colleges and universities around the country. Alternatively, the Government and the Reserve Bank can set apart a certain amount from the profits of the national sector banks received by them for such a purpose. These Chairs can be held by professors specialising in Money, Banking or Finance at their respective institutions. Professors holding such Chairs will be expected to work as the main link through which a close rapport between banks and general educational institutions can be established. Informal seminars can be arranged where practical bankers and these professors can participate and to which students can be invited to attend. Along with the sponsoring of banking Chairs, banks can also institute a few scholarships for students intending to carry out research in the field of banking and allied subjects.

22.28 Mention may be made of the Reserve Bank sponsored Chairs and junior/senior research fellowship at four educational centres at present, namely, the University of Bombay (Chair in Monetary Economics), University of Madras (Chair in Agricultural Economics and Co-operation), University of Calcutta (Chair in Public Finance) and the Indian School of International Studies (Chair in International Finance). The fellowships provide financial assistance to the selected students to conduct research leading to Ph.D. degree in economics and also post-doctoral research. The scheme establishes valuable points of contact between the Reserve Bank and the universities. However, the present scheme can be amended in one respect. At present, the research fellow who works in any of these fields has to register himself only at that centre which has the Chair in that field and work under the professor holding the Reserve Bank sponsored Chair. This can result in considerable hardship to the research fellow, particularly if there are difficulties in appointment of the professors. It will be more useful if research workers selected for the fellowships could do their work at universities and under teachers of their choice, subject, however, to the approval of the Reserve Bank.

22.29 The banks should also consider tie-ups with schools, specially in rural areas, where banking facilities are slowly spreading. The local bank itself or the IBA through the local bank can arrange certain programmes to impart elementary banking education to school students. Techniques involving visual aids can be used for this purpose, and arrangements for school students to visit the local bank should also be made.

22.30 As part of educational aids, there is need to compile a basic reading list on banking topics and to bring out text books (written by specialists) with text connected questions and topics to guide local instructors and students. We understand that the Indian Institute of Bankers is evolving a scheme to bring out text books on banking and allied subjects.

Concluding Observations

22.31 The recommendations made in the foregoing paragraphs, by no means exhaust the possibilities of improvement of the existing arrangements for banking research and education. Rather they are to be regarded as the beginning of an organised and systematic effort in this much neglected area. The essential point is that continuous research should be undertaken on the effects of environment in banking and related fields and the arrangements for such research should be suitably modified in the light of the changing requirements.

22.32 As far as banking education is concerned, steps are being taken to make it widespread through correspondence courses. At the same time, it may be mentioned that there is a need for constant review of both theory and practice of banking. New educational programmes have, therefore, to be developed from time to time to improve the human element which plays a crucial role in banking efficiency.

CHAPTER 23

CONCLUDING OBSERVATIONS

23.1 Before concluding our Report, we feel that we should bring together the different strands of the basic principles underlying the Commission's work of reviewing the various aspects of the banking system in India and recommendations we have made. All our recommendations have one fundamental objective in view: the banking system must play the fullest possible role in achieving the desired level and rate of economic growth in the country. In discussing deposit mobilisation, one of the major functions of banks, we have stated that, given the savings-income ratio, the banks have the important task of inducing the savers to hold their savings in the form of socially useful assets, of which bank deposits constitute the most important element. Banks draw the savings of the community into the organised sector which can then be allocated among the different economic activities in accordance with the priorities adopted by the planning authorities. Thus they bring together the decisions of the income-earners to save, the decisions of the savers to hold their savings in the form of bank deposits and the decisions of the producers to draw upon the savings of the community for the purpose of capital assets formation. They help the process of saving and of the holding of savings in a socially desirable form. They also help through their advances the creation of the incomes out of which further savings and further growth potentials emerge.

23.2 Banks are thus intermediaries between the savers in the community (household or corporate) and the users of the savings. There are other intermediaries also, like the stock market, long-term lending institutions, life and other insurance institutions, investment trusts, etc. In the final analysis, they do not compete with the banking system in regard to economic development, first, because they provide the finance required for those categories of durable assets formation, which to a large extent are outside the field of banks' operation, and secondly, because these institutions themselves use the banks as intermediaries. There is also the large unorganised financial sector, but the market here is uncertain and erratic in its operation, and it is also a highly expensive market. There is a fairly well-organised, but heterogeneous sector of non-banking financial institutions; but here also the borrowing costs are high and the advances may not conform to the requirements of the social priorities. The commercial banks have, therefore, a large field in which to operate, a field in which an expansion of their activity will be socially desirable. With the growth of the economy, this field should expand at a rapid

rate. Besides, it would be expected that there will be continuous shrinkage of the non-monetised sector of the economy, accompanied by a continuous increase in the share of bank money in the total money supply.

23.3 The large expansion of banking that will thus be necessary will require a clear formulation of policy, a policy which will be a combination of a larger number of lines of action. All policy formulation, including banking policy, has to start from the economic goals that the country sets for itself for attainment within a definite time period. These goals are expressed generally in terms of the rates of growth that are to be achieved in the outputs of various commodities—consumer goods as well as capital goods, goods for domestic use as well as export goods—and of essential services (including the movement and distribution of the goods produced) in accordance with the welfare objectives of the development plan and also within the range of the resources and technologies likely to be available within the time-horizon.

23.4 To attain these growth rates in the planned manner there has to be a proper mix of investment in durable capital assets, which requires finance through the stock market, or by the term financing institutions, in addition to the resources generated by the production units themselves and reinvested in the business. Finance is also required for working capital for the acquisition and holding of raw materials before production and of finished products before final sale, and for wage payments which have to be made in advance of the realisation of the sale proceeds. It is the main responsibility of the banks to provide the working funds required for all this, care being taken to ensure that the borrowers do not succeed in getting more than what their production plans call for.

23.5 In providing the working funds for production and for the movement of outputs, the banks (particularly when they are nationalised) have to follow the priorities laid down in the economic plan. Unless this is ensured, the commodity-balance necessary under the plan is likely to be disturbed, resulting in further distortions of the entire process of economic growth. Banks have thus to make the whole planned productive process possible. At the same time, it is vital that the resource constraints of the banks are taken into account in framing the plan. This means that funds have to be provided for all types of production incorporated in the plan, irrespective of whether the production is in the public sector or in the private sector, or whether the production is undertaken by one type of organisation or another. All employment, income-distribution and other objectives of the plan should as far as possible be subsumed into the production plans, which the banks are expected to finance. Income distribution through fiscal and other more direct measures will have to be undertaken, but the major effort in this direction will have to be through a full productive utilisation of the idle and under-utilised manpower in the country. If any particular type of output is to be given a low

priority, this should appear explicitly in the planned production target for that type of output. If banks are to expand their activities into the sectors that have been hitherto neglected, the planning authorities have to take concrete decisions as to the outputs expected from these sectors.

23.6 It is necessary to emphasise all this, because the nationalisation of the fourteen major commercial banks has led to the emergence in some quarters of unduly high expectations about what the banks can do and also of undue fears in some other quarters. There is a large field of activity for the banks to expand into, but they cannot replace either the planning machinery as a whole or the plan implementation machinery at different levels. Every institutional system has its own special field of work in which it should strive to attain the goals laid down, but these goals themselves are a part of a larger set of goals which can be determined in the aggregate only by the planning authorities. In the case of plan implementation also, it is illogical and unrealistic to expect that the banks should extend their activities into lines of action which properly belong to government departments, other technical and executive organisations and to private entrepreneurs. Thus it is not for the banks to determine the distribution of weightage among the various outputs which constitute the national product in a planned economy. It is also not the function of the banks, as depositories of the people's savings, to finance these activities which rank very high in the social welfare scale but which do not directly produce a monetary return high enough to repay the loans. Such activities should be financed by direct budgetary grants from the Government.

23.7 Aside from the fact that the banks are constrained in their activity at every point of time by the deposit resources available at that point, there are two other factors that deserve emphasis. First, banking policy is a part of the over all monetary policy, which in its turn, has to be closely linked with the fiscal policy. There are certain elements in monetary policy which overlap into fiscal policy and *vice versa.* For example, a differential interest rate policy is in effect a tax-cum-subsidy policy intended to produce certain production effects and also certain income distribution effects, which besides the revenue effects, are often the major objectives of some fiscal measures.

23.8 Secondly, banking policy is closely dependent on the industrial licensing and agricultural development policies on the one hand and on the foreign trade and payments policies on the other. A particular banking or credit policy can be completely negatived by a faulty use of another policy instrument. Sound planning means the combination of different policies in such a manner that each helps the others in achieving the accepted common goals. This indicates the importance of each one of the policies and policy instruments, but it also indicates the limits under which each sectoral policy has to work. The existence of the network of interdependence is often forgotten and there is sometimes a facile belief that a sector like banking can work unhindered in a vacant field and produce unprecedented results only through its own action.

23.9 Having emphasised all this, we should state that within the framework of the economic policy of the planning authorities, the effectiveness of the banking system can be improved considerably by improving the manner in which its services are rendered, by securing better co-ordination of the different sub-sectors within the banking sector (like commercial banks and co-operative banks), by introducing certain essential reforms in structure and organisation, and, where necessary, by initiating new varieties of institutions of the types we have recommended.

23.10 In making these recommendations we have been fully conscious of the wide diversity of economic conditions in the country. This diversity means that the institutional or procedural solutions have to be designed to suit the different conditions in different areas. It also means that at all levels of banking considerable initiative is needed to design methods and procedures to suit such varying conditions.

23.11 The Indian economy started on its path of planned development two decades ago. During this twenty year period, there have been remarkable achievements in many fields, and there have also been shortfalls in several directions. The experience of the four plans has, however, brought out clearly the handicap and limitations under which the economy has worked. There is a better awareness now than in the past of the recurrent and chronic difficulties and problems that the economy faces in achieving its goals. It has also been realised that some of the difficulties and handicaps can be removed and that practically no constraint is absolutely rigid when seen in a long-term perspective.

23.12 The organisational problems of the banking system have changed as a result of the nationalisation of the major private banks, bringing nearly nine-tenths of the banking resources under the control of Governmental direction. This change has prepared the ground for a further change in the structure of the system and we have made some concrete recommendations on this important question. We have also tried to indicate the manner in which indigenous bankers and the non-banking financial intermediaries can be brought not only under regulation but also closer to the organised market.

23.13 Some of the measures recommended by us can be taken without any changes in the law. There are others where, in our view, the laws need to be changed. In making our recommendations on the changes required in the laws, we have tried to frame them in such a way that the laws while ensuring the necessary degree of regulation do not affect the normal course of business and harass the common man unnecessarily. The basic objective of the regulation is to promote a healthy growth of the economy through such regulation and not impede it.

23.14 This brings us to a more general point. Many of the policies, and procedures of the banks affect in one way or another the business or other

activities of the common man. With the multifarious responsibilities which the senior managerial personnel in banks have to carry, it is difficult for the common man to have his voice heard by them when making such policies or devising procedures. At the national level, of course, the Government representing the public in the larger sense can take these matters up with the banks. However, there is a necessity for a more organised communication between the banks' customers and banks' management. The Committee of National Banks' Chairmen recommended by us earlier should give some thought to this.

23.15 As to the difficulties on account of shortage of trained personnel a systematic effort is needed to organise manpower planning and programmes of management. We have made certain recommendations in this important area.

23.16 Banking is a service industry. It can thrive and build up its strength in the service, not only of those who deal with it, but also of the community at large. With this is linked also the well-being of those who work in it and for it. At the same time involvement of the staff at all levels in the working of the banks, leading to increased productivity of manpower, is an essential component of banking development—a necessary precondition for increased prosperity of all sections of the community. The Banking Commission trusts that in some measure its recommendations will assist the banking system in bringing a better life to the people of India.

CHAPTER 24

SUMMARY OF MAJOR RECOMMENDATIONS

No.	*Recommendation*
1	Banks should not be allocated 'Lead' districts which are away from their respective principal areas of operation. (Paragraph 5.31)
2	Techno-economic surveys of the districts should be preferably conducted by the planning authorities because only they can establish the targets taking into account the availability of the financial as well as physical resources. (Paragraph 5.34)
3	District authorities—*i.e.*, the District Collector (or his equivalent) and his staff—should be in charge of district planning of which credit planning will be an integral part. Banks acting in consortium can help in the preparation of credit plan for the particular district. (Paragraph 5.37)
4	Increasing deposits with the banks will help to bring to the organised market savings that are idle or are wasted, or are used in creating assets which are low in the scale of the plan priorities. As new bank deposits constitute a rather low proportion of current savings and of current income, even a small positive change in the two ratios should have a large effect on the total amount of deposits. Large and quick changes that will be required to achieve this objective will have to be induced by positive action by the banks for the mobilisation of deposits. (Paragraphs 6.7 and 6.8)
5	Various investigations showed that in addition to the existence of the institutional structure, proximity of the institution to the depositor and the availability of varying schemes tailored to suit the liquidity and other considerations which weigh with the depositors, the return on deposits appeared to be of some significance. Hence, the effects of administered interest rates on bank deposits in a highly competitive market for deposits need to be studied carefully and a well thought out comprehensive approach to the question of the structure of interest rates on deposits worked out. Such a study can examine the proposal to have a dual structure of interest rates from the point of view of mobilising deposits in the rural areas. (Paragraph 6.11)

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6	It is necessary for banks to take into account the motivation for savings to attain a larger measure of success in deposit mobilisation from small persons. (Paragraph 6.28)
7	While the efforts which the banks have been making to mobilise deposits have to continue, it is important for them to see that the standard of services for the existing depositors is also maintained at a high level. The availability of ancillary banking services also is an important factor influencing the depositor's choice particularly in the smaller towns. (Paragraph 6.48)
8	While during the promotional period after introducing a new deposit scheme, the cost factor could be ignored to some extent, once the scheme proves successful in attracting deposits on a sizeable scale, it would be useful for banks to make a proper cost-benefit analysis of these schemes from time to time. (Paragraph 6.49)
9	As the saving-income ratio is smaller in the rural sector than in the urban sector, a concerted effort has been and is necessary to raise the rate of savings in general and the rate of savings in the form of bank deposits in particular, especially in this sector. Deposit mobilisation in rural areas will continue to be the responsibility mainly of co-operative banks. However, several steps as recommended in Chapters 8 and 10 will have to be taken to overcome their present difficulties in order to enable them to offer a wider range of services to their customers and introduce new deposit schemes. (Paragraphs 6.9 and 6.50)
10	The important policy objective of promotion and development of small units has to be realised by measures that affect not only the credit aspect but also other aspects. (Paragraph 7.70)
11	Eligibility for participation in the credit guarantee scheme for small loans should be extended so as to include non-scheduled banks as well as co-operative credit institutions extending credit to industrial co-operative credit societies and small borrowers. (Paragraph 7.25)
12	Commercial banks need not insist on maintenance of proper books of account for gauging the creditworthiness of small artisans. Often, informal enquiries about the financial position and personal integrity and character of artisans in the localities where they live would prove useful in assessing the creditworthiness of artisans. (Paragraph 7.26)
13	Commercial banks should evolve schemes that combine in them both savings and borrowing operations of artisans and other small borrowers in order to promote and develop banking habit among them. (Paragraph 7.27)

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14	Interest rates charged to small artisans should be reasonable and the banks should attempt to reduce the costs by resorting to simpler procedures as also to a properly designed policy of differential interest rates. (Paragraph 7.27)
15	Small artisans and other self-employed persons may be encouraged to form themselves into co-operatives or associations wherever feasible, which could look into the financial operations of artisans and help the credit agencies with information about them when processing loan applications, as also issue certificates, if needed, to vouch for the operations of the artisans concerned. (Paragraph 7.29)
16	There should be non-financing multi-purpose agencies functioning as purely advisory bodies, providing advice and guidance to small industrial units regarding the availability of raw materials, other resources, marketing prospects and institutional sources of finance and technical matters. Advice to the unit on the management of its resources or collecting information about the prospective borrowers should not be expected of these agencies. (Paragraph 7.71)
17	The State Governments should take the main initiative in setting up the multi-service agencies which should serve both the commercial and co-operative banks. Commercial banks could, however, render help in this regard and should be encouraged to provide consultancy and other technical services wherever they can. (Paragraphs 7.71 and 7.72)
18	The location and area of operations of the proposed agencies would depend on the amount of business that each agency will have. They would require the services of technically qualified persons but should not be overburdened with a large permanent staff. (Paragraph 7.72)
19	Banks should give advances to viable small industrial units with an eye on the end-use of their loans and simplify loan procedures. (Paragraph 7.73)
20	The Institute of Chartered Accountants of India can effect some simplifications in accounting practices and procedures to suit the small borrowers. The proposed multi-service agencies also may provide facilities of accounting at reasonable charges. (Paragraph 7.74)
21	Banks may consider whether they can grant soft term loans in collaboration with other term-lending institutions to bridge the gap in equity capital which the small units face. (Paragraph 7.75)

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22	Where technically qualified and competent persons are able to bring forth technically feasible projects but equity capital for them is not adequate, banks as also term lending institutions should consider providing a certain amount of soft loans. (Paragraph 7.77)
23	Some of the credit problems which small units face can be solved if there is close co-ordination among the lending agencies. (Paragraph 7.78)
24	A borrowing unit should maintain its loan account for working capital purposes with only one bank or lending agency. Any loss incurred by the constituents owing to dislocation of wo·k for any reason in their banks should be reimbursed by the concerned bank. Besides, the constituent if he so desires, should be able to shift his account to another bank without any difficulty in case he is not satisfied with the operation of his account. (Paragraph 7.79)
25	Extension of credit to the priority sectors should not be at the expense of meeting the legitimate credit needs of other sectors. In allocating credit, the linkages between the different sectors of the economy should be borne in mind as economic activities are inter-connected and denial or insufficient sanction of credit to one sector will have repercussions on other related sectors. (Paragraph 7.80)
26	The structure of banking institutions in the rural sector should be improved by strengthening the primary credit societies in such a way that they can pro\ide adequate credit, and develop the banking habit in this sector by providing a wide range of banking services and certain closely allied non-banking services. For this purpose, they have to become rural banks. The primary credit societies can do this if (*i*) they are well managed efficiently run units, (*ii*) they get technical assistance to enable them to provide the credit and the banking and the non-banking services, and (*iii*) certain legal steps are taken to enable them to function as rural banks. Where the central co-operative bank of the district is strong, the primary unit would get most of the assistance from the central bank; where the central bank is weak, the apex bank could give such assistance. Such rural banks in the co-operative sector, called 'rural co-operative banks,' will obviate the need for opening branches by central or State co-operative banks merely for providing banking facilities to the rural areas and the latter can concentrate on meeting the needs of other co-operativised productive and distributive activities. A number of societies which satisfy the criteria of potential viability can be converted into rural banks provided they can get technical assistance from the central or State co-operative banks. Since, however, in many States both the

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	district and State co-operative banks need to strengthen themselves, commercial banks may have to provide such assistance. (Paragraphs 8.42, 8.43, 19.50 and 19.51)
27	Besides formation of rural co-operative banks, banking facilities can be provided to rural areas by commercial banks through (*i*) opening of branches or (*ii*) adoption of villages or (*iii*) financing of primary credit societies. The first two can result in the extinction of co-operative credit institutions from the concerned areas. The third method can strengthen the co-operative societies provided satisfactory solutions can be obtained to the various difficulties (referred to in paragraph 8.41) experienced by commercial banks ; in due course many of the primary societies can become rural banks. The emphasis on rural banks does not imply that other methods of providing banking facilities are ruled out. In the present Indian context the need is to try out various alternatives with a view to finding out which particular method is suited to an area of a given type. What is essential is that the banking and credit arrangements in any area are capable of making a significant impact on the development of agriculture and the local industry in that area. (Paragraphs 8.41, 8.44 and 8.76)
28	In areas where the co-operative credit structure is generally weak, a rural bank may be established either by making a good primary agricultural credit society to work as a subsidiary of a commercial bank or by the commercial bank setting up its own subsidiary. Such a rural bank may be called a rural subsidiary bank. It should retain the useful features of co-operative credit institutions such as local participation, flexibility as regards increasing share capital, arrangements for selling shares to local people, etc. The parent bank will provide it with full technical and financial support. (Paragraph 8.45)
29	Where a commercial bank sets up a rural subsidiary bank', it should offer to the residents in the area of operation of such rural bank about 49 per cent of the share capital of the rural bank. In cases where such local participation in shares is not forthcoming, the promoting bank should increase its participation in the share capital to make up the shortfall in the minimum capital required, if necessary, by subscribing wholly to the share capital. Later, it may offer to the residents of the area, its holdings of shares in the rural bank, always retaining the controlling holding of shares and management control. (Paragraphs 8.45 and 19.75)
30	Those primary societies which are converted into rural co-operative banks should create a new class of members called 'associate' members who can avail themselves of the facilities of the bank but will not be

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entitled to any rights of voting or to patronage dividend. However, in order to retain the essential co-operative character, the loan business with 'associate' members may be restricted to a reasonable limit, say 25 per cent of the total loan business. (Paragraphs 8.46 and 19.86)

31 In order to encourage local participation in the rural banks, these banks should give, in their dealings, some preference to the members over 'associate' members in the case of 'rural co-operative banks', and shareholders over non-shareholders in the case of 'rural subsidiary banks'. Thus the interest rate charged to a member/shareholder for his borrowings would be somewhat lower than that charged to an 'associate' member/non-shareholder. (Paragraph 8.47)

32 The various functions which a rural bank may be expected to assume in due course are :

(*1*) mobilise local savings ;

(*2*) provide short-term and medium-term credit for agriculture and other purposes on its own and long-term credit as agent of the land development bank ;

(*3*) implement programmes of supervised credit tailored to the needs of individual farmers ;

(*4*) provide various ancillary banking services to local people ;

(*5*) set up and maintain godowns ;

(*6*) undertake supply of inputs and agricultural and related equipments, and in appropriate cases, equipment leasing ;

(*7*) provide assistance in the marketing of agricultural and other products through marketing organisations ; and

(*8*) generally help in the overall development of the villages in its area. (Paragraphs 8.48 and 19.81)

33 A rural bank may be described as a primary banking institution set up to serve a compact group of villages covering a population from 5,000 to 20,000, generally, working as a co-operative bank or as a subsidiary of a commercial bank. However, in sparsely populated areas, it may be necessary to organise a rural bank for as big an area as a development block to start with. (Paragraphs 8.49, 19.64 and 19.65)

34 A rural bank should cater to the full credit needs of all medium and small cultivators. Those cultivators and other rural producers who

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	may be in need of a different type of technical help and of a much larger volume of loans than what a rural bank would be in a position to provide, should have access to a branch of a commercial bank. Some of the uneconomic primary agricultural credit societies which have been operating in the area covered by the rural bank may continue to do so till they are wound up. The Reserve Bank should ensure through appropriate directives that the commercial or co-operative banks should not continue to finance such uneconomic and weak credit societies while at the same time financing rural banks in the same area. The members of such societies should be eligible for finance from the rural banks. In such circumstances, the provision empowering the Registrar of Co-operative Societies to order winding up of societies which are uneconomic and poorly managed, may be invoked, in the public interest, wherever there is such a provision. Where it does not exist, it may be provided for. (Paragraph 8.50)
35	Since rural banks under the scheme will be either subsidiaries of commercial banks or will be supported by strong co-operative banks and in either case they are likely to be under the effective control and supervision of the parent bank apart from that of the Reserve Bank, it is not necessary to fix any maximum borrowing power for these banks. (Paragraph 8.54)
36	The financial strength of the rural banks should be increased more by way of ploughing back the profits into the reserves than by increasing the proportion of share capital to be held by a member to the maximum amount he can borrow. This can be done by placing a ceiling on the rate of dividend. (Paragraphs 8.55 and 19.78)
37	The co-operative principle of distribution of patronage dividend to the borrowers should be applied to rural banks. The business surpluses after providing for statutory reserves and other funds may be distributed to borrowers and depositors in the shape of patronage dividend when the rural banks are in a position to do so. (Paragraphs 8.56 and 19.78)
38	It should be ensured that lack of resources for the purpose of making share capital contribution to the rural banks does not stand in the way of either co-operative or commercial banks for sponsoring rural banks wherever it is considered necessary. The resources for the purpose may be made available from the National Agricultural Credit (Long-term Operations) Fund set up by the Reserve Bank of India. (Paragraphs 8.57, 19.79 and 19.80)
39	The rural bank should be allowed to offer a somewhat higher rate of interest on deposits than that offered by the parent commercial or

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	co-operative bank. The extent to which the rate can be higher on different deposits may be fixed by the Reserve Bank from time to time. The Deposit Insurance Scheme may also be extended to the rural banks. (Paragraphs 8.58 and 19.87)
40	The Food Corporation of India and its authorised agents who make purchases of foodgrains and other commodities from the agriculturists may make payments to the producers through the rural banks on an experimental basis wherever these are set up. Similarly, where the system of compulsory procurement exists, the State Government may utilise the rural banks for payment to farmers. (Paragraph 8.59)
41	A good part of the resources of the rural banks would come from higher level banks, whether co-operative or commercial. Rural co-operative banks may supplement their resources by borrowing from a commercial bank as and when necessary. However, rural banks should also get some concessional credit facilities. The policy regarding concessional credit facilities from the Reserve Bank should be a uniform one irrespective of the channel through which they are made available. The rural borrower should pay the same interest whether he borrows from a primary co-operative or from a rural bank. (Paragraphs 8.60 and 19.86)
42	It is not desirable for the rural banks to seek direct refinance from the Reserve Bank. The higher level institution, *viz.*, the central co-operative bank or the sponsoring commercial bank will be the link with the Reserve Bank. It is, however, necessary to ensure that the borrowings of the commercial bank for financing its rural subsidiary do not result in penalising the commercial bank in obtaining refinance for its own purpose. The Reserve Bank may make appropriate changes in its policy in this regard. (Paragraph 8.61)
43	The norms for maintenance of liquid assets by rural banks should be lower than those for other banks. Further, for both types of rural banks, the balances maintained by them with the higher level banks should be regarded as liquid assets. (Paragraphs 8.62, 19.84 and 19.85)
44	The rural banks should be given by parent banks, remittance facilities free of cost and training facilities for personnel including technical personnel and personnel on a loan basis at subsidised costs in the initial years. (Paragraph 8.63)
45	The rural banks should be eligible for participating in the guarantee schemes designed for ensuring adequacy of credit facilities to small and neglected sectors. (Paragraph 8.64)

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46	The success of a rural bank depends on the type of men put in charge of it. The staff of the rural banks should have the requisite background and training consistent with its functions. It is important that either the manager or the official next in line should have proper training in farm management and agricultural credit. (Paragraph 8.65)
47	The first priority in establishing rural banks should be given to the well-run primary agricultural credit societies. Each central co-operative bank which has the necessary organisational strength should select a few such primary societies every year for conversion into rural banks. Where such societies exist in the area of operation of a weak central co-operative bank, the concerned State co-operative bank can take such action if it can provide the necessary technical support. Otherwise, the primary credit society may be allowed to become a subsidiary of a commercial bank. Where the whole co-operative structure is weak, the commercial banks should set up rural subsidiary banks on their own on an experimental basis for a period of five years and establish rural subsidiaries in some of their lead districts. The experience gained during this period will decide the future of the scheme. (Paragraph 8.66)
48	There are two types of districts where this type of organisation can be tried out initially. The districts which are known as package districts, the cash crop districts and parts of those where high-yielding varieties programmes have been introduced in a big way come under the first category. The other, comprises the areas which have been identified as having considerable potential for development of agriculture, agro-industries and related rural activities but much development has not taken place on account of lack of banking and credit facilities. (Paragraph 8.67)
49	Since the Reserve Bank will have to license/notify the rural banks, it should also have the responsibility for ensuring that the Scheme of rural banks is implemented properly. It will have to co-ordinate the rural bank programmes of the commercial and co-operative banks and formulate guidelines for their working. (Paragraphs 8.68 and 19.71)
50	A separate legislation should be enacted by the Parliament in order to enable rural banks being set up quickly and in a fairly simple way without straining too much the organisation and resources of either co-operative or commercial banks. (Paragraphs 8.69 to 8.72)
51	Pending the enactment of the new legislation, appropriate amendments may be made to Co-operative Laws in different States to enable the

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	setting up of rural co-operative banks expeditiously along the lines suggested. (Paragraph 8.73)
52	A sound and progressive system of credit, whether followed by co-operative or commercial banks, should have certain well understood goals. It should (*a*) provide integrated and comprehensive credit facilities to all the producers, (*b*) be based on the purpose of the loan and in particular the improvement of productivity it can achieve through modernisation and diversification of farming, and (*c*) be responsive to individual needs, in matters like the quantum, timing of sanction, spacing of disbursements and the degree of technical help and supervision needed. (Paragraph 9.9)
53	It is important under a progressive loaning system to increase the capability of the farmer to increase his overall income, resulting from his improved productivity and efficiency of management. The system of credit should increasingly emphasise building up of these qualities in the borrower which make tangible security a matter of secondary importance. At the same time, such a system of credit should also enable farmers to acquire assets which help improve their productivity and risk-bearing ability. (Paragraph 9.23)
54	The implementation of the programmes of the Small Farmers Development Agency should continue on an experimental basis. However, as small farmers are not concentrated in any one district but are dispersed all over the country, their problems will have to be viewed in the wider perspective of equipping the institutional structure designed to cater to rural needs in order to satisfy their needs also to the maximum extent. (Paragraph 9.36)
55	The problems of small and marginal farmers call for an integrated approach to their requirements combined with supervised credit. Unless the institution which is in direct touch with the rural producers is adequately equipped to provide integrated services combined with credit, a complete answer to their problems is not likely to emerge. (Paragraph 9.37)
56	The Commission endorses the recommendations of the "Expert Group on State Enactments having a bearing on Commercial Banks Credit to Agriculture" which deal with removing the restrictive features of the State enactments particularly those relating to rights of alienation of land or interest therein in favour of commercial banks and with providing certain facilities which are now available to borrowers from co-operatives to borrowers from commercial banks also. [See also Recommendations Nos. 122 and 397] (Paragraph 9.40)

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57	The authority for laying down guidelines for policies for all banks in the field of agricultural finance should be the same, as in the past, *i.e.*, the Reserve Bank of India. (Paragraph 9.42)
58	In the case of co-operative banks there is need for greater flexibility in their loan policies than exists at present. This is particularly important on account of the flexibility that is available to commercial banks. Towards this end, the policy making body at the State co-operative bank level should be sufficiently broad-based to include representatives of agricultural departments in charge of extension work, a farm management specialist and a representative of the 'lead bank' in the area. (Paragraph 9.43)
59	The Reserve Bank may take steps to encourage the State co-operative banks to take decisions regarding details of loan policies subject to broad guidelines laid down by it as in the case of commercial banks. (Paragraph 9.44)
60	As regards the loans granted to individual borrowers it is necessary to consider the purpose of the loan from the point of view of the improvement it can bring about in the productive, efficiency of the borrowers and their income. In particular, diversification of farming is essential for improving the incomes and risk-bearing ability of the farmers. It is, therefore, necessary that the institutions at the primary level should be functionally equipped to provide credit facilities for all productive purposes to the farmers whether undertaken jointly with agriculture or independently, and whether they help production directly or indirectly. The primary units will also have to finance small scale and agro-industries like flour mills, oil crushing units, etc., for financing which there may be no separate institutions in the area. (Paragraph 9.45)
61	The proposed rural banks as well as the recognised viable primary credit societies should be equipped to provide production loans for all purposes which help either directly or indirectly in improving the production capacity and income of the farmers. In the matter of eligibility of purpose for loans, a farmer borrowing from a co-operative should not be at a disadvantage as compared with a borrower from a commercial bank or its subsidiary rural bank. (Paragraph 9.46)
62	The loaning system should provide for accepting as security those assets, real as well as financial, which farmers may acquire to improve their production and repaying capacity. The commercial banks, the rural banks and recognised primary credit societies should be equipped to reorient their loaning system in this manner. (Paragraph 9.47)

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63	It would be useful to find out whether 'credit rating' of borrowers on the basis of certain personal data developed in a number of countries is applicable under Indian conditions. [See also Recommendation No. 165(*ix*)] (Paragraph 9·49)
64	Farm guidance and supervised credit programmes are important factors in ensuring efficient use of credit. For farm guidance, the best course would be to make use of the agricultural extension machinery at the government level. Arrangements for credit supervision is the responsibility of banks and there should be suitably co-ordinated supervised credit programme. (Paragraph 9.50)
65	Since the primary credit societies are too small to be in a position to appoint specialists for credit supervision, the central/apex co-operative banks should appoint a suitable number of specialists and make their services available to the societies for undertaking supervised credit programmes as in the case of rural banks. Where necessary, co-operative banks may be sanctioned suitable subsidies by the Government in the initial years. (Paragraph 9.51)
66	The proposed rural banks and recognised viable primary credit societies should receive adequate guarantee support for undertaking financing of small and marginal farmers and other producers of similar categories in an integrated way. In view of the special factors affecting agricultural production, it may be necessary to augment the resources of the Credit Guarantee Corporation by an adequate subsidy from the Government. It may also be necessary for the Corporation to suitably decentralise its work. As the Reserve Bank of India has already opened branches of the Agricultural Credit Department in most of the States, these branches should be able to do the work of the Corporation in regard to loans to small farmers. (Paragraph 9.54)
67	The scope of guarantee cover extended by the Credit Guarantee Corporation should be so widened as to extend its coverage to all institutions which give production credit to small farmers and other borrowers. The proposed rural banks and recognised primary credit societies and co-operative banks where they finance producers directly, should be made eligible for suitable guarantee cover, under the schemes of the Credit Guarantee Corporation. (Paragraph 9.55)
68	In the case of wilful defaulters, the societies and the rural banks, where these are set up, should take prompt legal action. Wherever it has not already been done, the co-operative banks should be enabled to proceed directly against the borrowers where the societies have failed to

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	take action. In the case of commercial banks, the legal impediments that stand in their way of taking action against defaulters should be removed by the State Governments expeditiously. (Paragraph 9.58)
69	When the borrowers satisfy the primary institution, regarding the purpose of the loan, their repaying capacity and security, it should be possible for the primary lending institution to defer repayment of loan by a suitable period in all cases of default for reasons beyond the control of the borrowers. In such cases upto a reasonable level of their resources, the institutions at the primary level should be allowed to grant extensions. (Paragraph 9.60)
70	Both central banks and the higher financing institutions including the Reserve Bank should treat such extended loans as current loans to the extent they are satisfied about the soundness of the purpose of the loans and the repaying capacity of the borrowers. The apex bank and the Reserve Bank may from time to time cause investigations to be made of such extensions granted by the primary institutions in order to make sure that the powers to sanction extension are not used injudiciously. This practice of granting extension should be confined to the proposed rural banks and recognised viable primary credit societies. (Paragraph 9.61)
71	It is necessary to introduce a flexible system of making recoveries in those areas where : (*a*) both the crops are not equally good or certain, (*b*) there are periodical crop failures. The long-term solution to this problem lies in encouraging the farmers to undertake improvements on the farm and undertake supplementary non-farm activities so as to ensure steadily growing income and to develop a system of loaning and recovery that will be appropriate to such areas. In areas where one of the crops is more important than the other, a major part of the loan extended for the whole year may be recovered from out of the crop that is more important and the remainder from out of harvest of the other crop or other incomes of the farmers. Similarly, in areas subject to periodical droughts once every three or four years, the recovery system should be so adapted that the repayment of that part of the loan which remains unpaid during the lean years is spread over the two or three years during which good crops can be expected. Wherever co-operative and commercial banks have the resources, and have introduced the supervised credit system, recovery may be spread over periods of two to three years. (Paragraph 9.62)
72	The existing conditions for converting short-term loans into medium-term loans on account of widespread crop failure should be relaxed. The eligibility of co-operative banks for conversion facilities from the

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National Agricultural Credit (Stabilisation) Fund of the Reserve Bank should not be linked to the State Governments declaring *annawari* short-fall of less than 6 annas in 16 annas (*i.e.*, 37½ per cent) in the affected area. The decision whether or not the crop failure in the area justifies conversion facilities should be left to the Committee headed by the seniormost officer in charge of agricultural production in the State. (Paragraph 9.63)

73. Considering that a rural bank is designed essentially to cater to the needs particularly of medium and small farmers as well as those sections which have been hitherto denied credit facilities, all these types of farmers should be adequately served by the rural banks or the viable primary societies, unless they are directly served by commercial banks. If needs of individual farmers for credit exceed a specified level, they should be financed by the nearest branch of a commercial bank and not by a rural bank or a primary agricultural credit society. In their case, there is a definite need for their using a good part of their own resources for current operations and investment in farming which can be better ensured by a commercial bank. These farmers should not be eligible for subsidized credit. They should be charged the usual rates of interest on loans. Further, they need not be brought under the supervised credit programme which is necessary in the case of small farmers. (Paragraph 9.64)

74 As far as possible, a borrower should get his entire credit from one single institutional agency. Rural banks and recognised primary credit societies should be enabled to make long-term loans also as agents of the land development bank. It would be useful to avoid 'splitting of security' among the lenders and enable the lending institution to have complete control over the assets offered by the borrower and help improve his production and income. Where farmers have outstanding dues to any other institutional agency, the institution providing complete credit facilities may arrange to repay those dues and get the pledged security released in its favour, to have a better control over the assets of the borrower. (Paragraphs 9.65 and 9.66)

75 Where members of primary co-operatives are unable to obtain loans to the full extent of their needs, the society should enable them to raise the balance from a commercial bank or a rural bank sponsored by a commercial bank. This can be done by entering into a participation arrangement with the commercial bank or a rural bank, or by permitting the borrower in writing to approach the commercial bank. (Paragraph 9.67)

76 Unless there are special circumstances like the commercial bank or co-operative bank adopting a group of villages for providing complete

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	credit facilities and related services, demarcation of areas between commercial banks and co-operative banks does not appear as a practicable method of ensuring co-ordination between the two. (Paragraph 9.68)
77	In areas where either commercial banks or co-operative banks launch their schemes of village adoption and seek to provide complete credit facilities for all the rural producers, other institutional agencies should not be allowed to operate. (Paragraph 9.70)
78	In areas where there is scope for development loans, but co-operatives have not been able to make development loans but are in a position to make adequate short-term loans, it would be preferable for commercial banks to confine their lending for development purposes by entering into suitable arrangements with the co-operatives. Close co-ordination between the concerned co-operative and commercial banks is necessary to ensure that the total finance provided is adequate and is properly utilised. (Paragraph 9.71)
79	It is necessary to have regular machinery at the district level in all the States which will take a co-ordinated view of the credit problems of the various productive activities in a district. Co-ordination committees at the district level, with representatives of the lending agencies as members and the seniormost officer of the State Government in charge of development of the district as the Chairman should, therefore, be formed. (Paragraph 9.72)
80	One important aspect of co-ordination is the exchange of information between the co-operative and commercial banks by obtaining standardised type of information. Exchange of information would be useful in regard to crop prospects, availability and prices of the different agricultural inputs, etc. It will be one of the main functions of the district level co-ordination committee to look into all such practical aspects of field level co-ordination and evolve suitable procedures to keep all the agencies lending to rural producers in a district properly informed. (Paragraph 9.73)
81	The co-operative banks should appoint well qualified and trained staff. The Deposit Insurance Scheme should be extended to the co-operative banks. It is necessary that the Reserve Bank of India should link the rate of interest charged on its loans to co-operative banks to the deposit mobilisation efforts put in by them. The Reserve Bank should formulate a scheme at any early date for this purpose. (Paragraphs 10.18, 10.19 and 10.87)

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82	At present there is considerable variation in the regulation of co-operative banks, their inspection and the assistance they get from State to State. This has led to difficulties in the efficient management and functioning of the co-operative banks. As these banks are the main channel for providing institutional credit to agriculture, the differences mentiond above create a number of difficulties in effective implementation of the monetary and credit policy of the country. Moreover, the financial assistance provided by the States to these banks is mostly from the resources of the Reserve Bank or the Central Government. Therefore, from the point of view of ensuring a unified monetary and credit policy, uniformity of laws and regulations relating to credit supplying agencies and ensuring a high quality of management of these agencies through programmes of training and exchange of information, co-operative credit should be transferred to the Union or the Concurrent List. [See also Recommendation No. 309] (Paragraphs 10.30 to 10.38, 10.88 and 10.89)
83	Wherever weak central banks exist, the co-operative structure should be reorganised. This can be done in the following manner : (*i*) In those States where all the district central banks are weak, it will be better to reorganise the structure so as to have only branches of the apex bank; (*ii*) In those States where there is a small number of strong central banks and a large number of weak banks, the apex bank should open branches in places where the weak central banks exist at present ; (*iii*) In a State where the majority of the district central co-operative banks are strong, it is not advisable to disturb the existing structure. In such cases, the weak banks which form the minority, may be converted into branches of apex bank till such time as they are transformed into strong viable banks ; (*iv*) However, in States where both the apex and district central co-operative banks are strong, the present structure may be allowed to continue. (Paragraphs 10.53 to 10.56 and 10.92)
84	It is possible that the reorganised State cooperative banks in some States are likely to acquire deficits on account of taking over the assets and liabilities of the central co-operative banks already under 'rehabilitation' programmes or likely to be brought under such programmes. In all such cases, the net owned funds position of the reorganised banks should be ascertained and where necessary suitable share capital contributions be made from the National Agricultural Credit (Long-term

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Operations) Fund of the Reserve Bank of India, taking care to see that the capital base is not thereby made excessive. (Paragraphs 10.57 and 10.93)

85 The policy regarding owned funds of co-operative banks is based partly on the principle of maximum borrowing power being a definite multiple of the owned funds and partly on the principle of increasing such funds for the purposes of absorbing overdues. For the co-operative credit agencies, the share capital base has become rather large in relation to the volume of business resulting in a low rate of return to the individual shareholder. For the individual members, a good part of the share capital is collected from loans as compulsory deductions. From the point of view of the shareholder it is more advantageous if the co-operatives concentrate on deposit mobilisation rather than on raising more share capital. The requirements of owned funds should be related to such factors as (*i*) the fixed capital requirements of the credit agency, (*ii*) bad and doubtful debts, and (*iii*) quality of other loans, and not linked up with the considerations of maximum borrowing power. The Reserve Bank should review the policy in this light and revise the requirements for share capital contribution. [See also Recommendation No. 151] (Paragraphs 10.49 and 10.90)

86 The proposed reorganisation of weak central banks as branches of apex banks and granting of a 'scheduled' status to strong co-operative banks may create some difficulties for these banks in raising resources from the Reserve Bank because of the requirement of two good signatures to be furnished on the promissory notes submitted for obtaining accommodation from the Reserve Bank. In this connection the Reserve Bank of India Act, 1934, may be suitably amended to enable it to provide financial accommodation against a single good signature. (Paragraphs 10.58 and 10.95)

87 As a result of the proposed reorganisation in some States, the offices of the central banks as branches of apex banks, will acquire the status of the branches of a 'scheduled' bank, so long as the present distinction between the 'scheduled' banks and other banks remains. This could mean, however, that those central co-operative banks which continue their independent existence because of their good performance will remain non-scheduled. If the banks wish to be included in the Second Schedule to the Reserve Bank of India Act, 1934, it should be possible for them to be so included. In order that central co-operative banks are also enabled to be scheduled, the Central Government should notify them as eligible institutions under section 42(6)(*a*)(*iii*) of the Reserve Bank of India Act, 1934. [See also Recommendation No. 19.95] (Paragraphs 10.59 and 10.94)

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88	In order to enable the central and the State co-operative banks to finance small scale industries in their States, individual membership in such banks should be allowed upto a limit to be specified by the Reserve Bank of India. (Paragraph 10.96)
89	In those States where co-operative banks are generally strong and re-organisation is not considered necessary, steps should be taken to simplify the existing documentation and procedural formalities that are required to be observed between apex and central banks. (Paragraph 10.59)
90	With the introduction of credit planning, it may be expected that broad sectoral allocations of the total available credit will be made from time to time by the credit planning authorities. However, because of the inadequacies of both the commercial and co-operative banks at the primary or the field level, there is likely to be a problem for some time to come of credit to agriculture and other productive activities in the rural areas not being made available fully. In particular, it is likely that while the deposits raised by the co-operative banks will be fully utilised for this purpose, the allocation out of commercial banks deposits remains unutilised. The Agricultural Credit Board of the Reserve Bank of India should keep this matter under constant review and devise ways and means of utilising the allocation from commercial banks deposits more fully. There is no case for establishing a National Co-operative Bank. (Paragraphs 10.81, 10.82, 10.98 and 10.99)
91	What is of utmost importance is that lending at the level of ultimate borrowers should be sound. To what extent the Reserve Bank may finance a co-operative bank should be determined not so much by the audit classification and prescribed multiples of owned funds, but by the extent to which it has been in a position to make sound use of resources. Where the co-operative banks are financially sound, managed efficiently and when sound loaning policies are followed, they should be able to get credit facilities for meeting their actual needs. This may mean relaxation of or altogether dispensing with the existing multiples. (Paragraphs 10.75 and 10.97)
92	In the case of banks which are weak and are not so sound, what the Reserve Bank provides by way of credit limits should be part of a total 'package' consisting of credit plus management guidance, plus a concrete annual programme for improving the loaning system. This would enable weaker co-operative banks to draw larger loans from the Reserve Bank. (Paragraph 10.76)

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93	There is a strong case for combining the Agricultural Refinance Corporation and the Agricultural Finance Corporation. The new institution will be in a better position to help promote development financing to a much greater extent by both co-operative and commercial banks. This would also ensure effectiveness of co-ordination between term-financing, technical assistance and finance for current operations within the Reserve Bank complex. The new institution formed by merging the two corporations can serve the purposes the proposed Agricultural Development Bank of India is expected to serve. (Paragraphs 10.84 to 10.86 and 10.100)
94	Urban co-operative banks do useful work in mobilising deposits and financing the sector of small borrowers such as small scale industries, professionals, retailers and so on. Another useful activity is the financing of house construction and repairs, for members of the banks. Also, this type of banking provides a useful avenue for those who have the necessary ability to set up a bank. (Paragraph 10.124)
95	The establishment of urban co-operative banks should be encouraged by the authorities, by such means as (*i*) according the status of a 'scheduled' bank to the well managed urban co-operative banks if they so desire ; (*ii*) counting towards liquid assets the deposits which these banks place with the national banks; and (*iii*) asking the national banks to give such of the urban co-operative banks which remain non-scheduled, free remittance facilities and borrowing facilities on reasonable terms. (Paragraph 10.125)
96	In order to ensure that the productive and distribution activities are adequately financed by urban banks, (*i*) there should be a system of ceilings on the borrowings by individual members on the basis of the purpose for which the loan is obtained instead of linking it only to the amount of shares held; (*ii*) lending for long-term purposes, such as house construction, should be allowed subject to a ceiling that may be specified by the Reserve Bank of India regarding the proportion of such lending to the total loans given by the bank ; and (*iii*) there should be a ceiling on the proportion of total loans for consumption purposes; this ceiling need not apply in the case of employees' co-operative credit societies. (Paragraph 10.126)
97 [1]	In order to create a good image in the minds of customers for retaining existing business and attracting fresh business, it is necessary that their

[1] A number of recommendations relating to improvement in customer services, simplification of credit procedures, measures for making internal control systems more effective and those for improving organisation and management of banks, besides a few miscellaneous suggestions have been made in paragraphs 11·8 to 11·127, of which the major ones are summarised in recommendations 97 to 142.

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	waiting time at the counters should be minimised, proper guidance should be given to them by providing enquiry counters and behaviour of the staff with them should be courteous and helpful . (Paragraph 11.10)
98	For expediting the transactions at the counters, the teller system should be adopted in all banks at all important branches for encashment of cheques and receipt of cash for credit to accounts. Where the teller system is not in operation and where it is not proposed to be introduced immediately, the first line supervisors should be permitted to pass cheques for payment in cash up to a specified amount. (Paragraphs 11.11 and 11.12)
99	The waiting time of customers paying in cash at the counter can be reduced by authorising the cashier to issue the counterfoil without its being countersigned by another official. In order to maintain an independent record of cash receipts, the Scroll Book should, however, be maintained by a member of the Accounts Department who should sit near the cash counter. (Paragraph 11.14)
100	Cheques and bills tendered for collection and credit to accounts should be allowed to be received by the bills clerk who should be authorised to sign the counterfoils singly. (Paragraph 11.15)
101	Banks should discontinue the practice of obtaining balance confirmations for credit balances in deposit accounts except where the branch agent considers it necessary to obtain them in the light of his personal knowledge about the depositors and operations in their accounts. The internal auditor should be required during the course of audit to request a few depositors, selected at random, to confirm their balances and send the confirmations direct to him. (Paragraph 11.17)
102	A planned programme for use of regional languages for account opening forms, pay-in-slips, cheque books, pass books, statements of account, etc., should be adopted and implemented by banks, so that within a period of three years or so dealings with customers are carried out entirely in the languages they fully understand. Government departments, local bodies, educational institutions, public utility concerns, public sector undertakings, etc., should encourage the use of cheques in their financial transactions with the public, where necessary, by suitably amending their rules and regulations. (Paragraph 11.18)

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103	Banks should take expeditious steps to encourage the members of the staff and officers to learn local languages and to dispense with the practice of obtaining letters of indemnity for vernacular signatures of the depositors and of transcribing and attesting such signatures. Banks should also make arrangements for taking and keeping on record photographs of illiterate depositors for facilitating their identification. (Paragraph 11.19)
104	Commercial banks which close their accounts at the end of June each year should discontinue the practice of half-yearly closing of accounts. (Paragraph 11.23)
105	Banks should issue cheque books with crossing printed thereon to the customers who require them. A similar system should be followed in respect of bank drafts. (Paragraph 11.25)
106	Increased use of ultra-violet ray equipment should be made by banks at their urban branches and they should also supply protectograph machines to all offices which are authorised to issue drafts. (Paragraph 11.25)
107	Mechanisation should be introduced by banks, especially at larger branches, by adopting a phased programme. The Government should take positive steps to help the banks in getting over the difficulties such as non-availability of machines and opposition, if any, of the staff. Indigenous manufacturers should be encouraged to produce machines to suit the requirements of Indian banking. (Paragraph 11.27)
108	The feasibility of opening clearing houses at places with population of more than 50,000 which are served by more than 3 or 4 banks should be examined by the concerned authorities. The State Bank of India should take a lead in this matter. At centres where the State Bank of India is not established but other banks or their customers feel a need for establishment of a clearing house, the initiative should be taken by the banks themselves, preferably by the lead banks. (Paragraph 11.29)
109	The feasibility of opening additional clearing houses in large cities to serve suburban or other composite areas should be expeditiously considered by the Reserve Bank of India. The question of admitting non-scheduled banks as full-fledged members of clearing houses as also liberalising the clearing houses rules should be examined by the Reserve Bank of India and the State Bank of India. (Paragraph 11.30)
110	Expeditious steps should be taken for extension of the 'Courier Service' for transmitting instruments, documents, advices, etc., in order

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	to cover all important trade centres in the country connected by air; the Government should render such help, as may be necessary, in resolving the legal and technical difficulties which might arise. (Paragraph 11.32)
111	In order to avoid inconvenience to customers and as a measure of self-discipline, banks should issue instructions to their branches that the cheques and drafts sent by them to outstation branches for collection should be considered as realised and proceeds credited to the customers' accounts if they are not returned unpaid or information regarding their dishonour is not received from the collecting branches within specified periods. (Paragraph 11.33)
112	To bring about an improvement in procedures, a suitable manifold system should be introduced by banks, which have not so far adopted it, for outward and inward bills for collection. (Paragraph 11.34)
113	First line supervisors should be authorised to sign drafts singly up to a specified amount. Further, the introduction of manifold draft requisition form, with a carbon attached, is likely to reduce the waiting time of customers. (Paragraph 11.37)
114	A bank Giro should be established by banks, with mutual collaboration, as an independent institution, to clear inter-bank credit transactions relating to transfer of funds from one bank account to another and also remittance of funds by a non-account holder to an account holder and *vice versa*. It may also undertake issue of travellers cheques and drafts. (Paragraph 11.41)
115	A comprehensive scheme should be drawn up by the Reserve Bank of India for on-the-job training of co-operative banks' personnel at various levels in commercial banks. In turn, the members of the staff in commercial banks dealing with agricultural finance may also receive training in co-operative banks and training institutes in order to acquaint themselves with the procedures adopted by these banks. (Paragraph 11.44)
116	In regard to advances to small borrowers, only essential information of a simple nature relating to the borrower and his credit requirements should be required to be filled in the application form. The information so obtained may be supplemented by a bank official by questioning the applicant and perusing his books of account and other relevant papers. (Paragraph 11.46)

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117	It is necessary to create a separate organisation which could be named as Credit Intelligence Bureau as a statutory corporation for compiling and furnishing credit information to various financial institutions in the country. (Paragraph 11.48)
118	While assessing the credit requirements of a borrower, the branch agent should take into consideration the borrower's requirements for different types of facilities. The head office/regional office should also give discretion, to some extent, to the branch agent to interchange various limits in favour of a borrower according to requirements from time to time. (Paragraph 11.50)
119	If a constituent has been borrowing from other sources for his business purposes, the bank should endeavour to persuade him to repay such borrowings and deal exclusively with it for all his credit requirements. The borrowers should, however, have freedom to shift their entire dealings from one bank to another. Where the requirements of a borrower are large, he may be allowed to borrow from more than one bank, *i.e.*, by a consortium of banks entering into participation arrangements or by mutual arrangement between banks. Borrowings from more than one institution may also be allowed in other reasonable circumstances. (Paragraph 11.51)
120	In order to ascertain the end use of funds, the branch officials during their periodical visits to the places of business of the borrowers, should try to test check whether large drawings made from the accounts were for genuine business purposes, whether the inflow of cash in the business was regularly deposited in the account and whether the production and marketing activities of the concerns have been running smoothly. (Paragraph 11.52)
121	In regard to direct advances to agriculturists, the Regional Offices of commercial banks should issue instructions to branches in their respective areas indicating the scale of finance applicable to different types of crops. As far as possible, banks should disburse credit by making direct payments to the suppliers of inputs taking care to see that finance in respect of a particular input is commensurate with the requirements of the farmer. (Paragraphs 11.54 and 11.56)
122	Expeditious steps should be taken to ensure that commercial banks are not made to suffer from any direct or indirect legal disabilities which co-operative banks are not subjected to and also to ensure that all the privileges and concessions enjoyed by those banks are extended to commercial banks. (Paragraph 11.57)

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123	The extent of the area served by a rural branch of a commercial bank should depend upon the nature of available communication and conveyance facilities. Normally, such area should not be larger than about 15 to 20 kilometers from the branch. Larger areas may have, however, to be served in suitable cases, particularly in respect of underbanked regions until banking facilities are adequately spread out. (Paragraph 11.59)
124	The terms and conditions usually prescribed by banks in the case of advances to medium sized and large scale industries should be relaxed suitably while considering the limits in favour of deserving small scale industries. Further, the various limits granted to them should, in suitable cases, be consolidated in a smaller number of limits as multiplicity of limits causes hardships when there are seasonal variations in business. In regard to working capital advances to small scale industries, technical reports from consultancy firms or institutions need not be insisted upon as a matter of course. (Paragraphs 11.63 and 11.65)
125	The number of centres where banks provide intensive export finance facilities should be increased. In order to provide facilities to the customers and guidance to the branch agents, banks should post at least one officer with adequate knowledge of foreign exchange procedures at the regional offices which do not have full-fledged Foreign Exchange Department. (Paragraph 11.70)
126	The Industrial Development Bank of India should be in a position to obtain information regarding export opportunities as also exchange control and customs regulations in different countries, to keep it up-to-date and make it available to commercial banks and others on request. The Indian Institute of Foreign Trade should be strengthened for rendering better assistance to small exporters in exploring foreign markets. [See also Recommendation No. 230(*d*)] (Paragraph 11.75)
127	In regard to financing of small borrowers banks may insist upon guarantees of third parties only when there are reasonable doubts about the repaying capacity of the borrower. The banks should introduce night safe facility at suitable centres to enable customers to deposit their daily cash collections in the bank after banking hours. (Paragraphs 11.77 and 11.78)
128	Mechanisation to the extent possible, including the use of electronic computers, should be adopted by banks for reconciling the inter-branch transactions. The outstanding entries should be promptly followed up and reasons for their remaining outstanding should be ascertained.

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	During the course of audit of a branch, the internal auditor should make a test check of the entries in the inter-branch account on a random sampling basis and a complete scrutiny of the long outstanding entries. (Paragraphs 11.26 and 11.85)
129	For the purpose of exercising an effective control over the working of the branches, proper attention has to be paid by banks to the organisation of the Audit and Inspection Department, selection of inspection staff, preparation of reports and follow-up action on them. The major suggestions in this regard are as under :

(*i*) The inspection staff of banks should normally consist of Internal Auditors, Branch Inspectors and Godown Inspectors. Internal Auditors should have a thorough knowledge of the procedures and at least five years' experience of handling different types of work in responsible capacities. Branch Inspectors should be senior and experienced enough to be in a position to comment critically on and assess the quality of business conducted by the branch officials.

(*ii*) The Audit and Inspection Department should be directly responsible to the Chief Executive Officer of the bank. For the sake of convenience and in the interest of economy, members of the inspection staff may be posted at different regional offices but they should be under the direct administrative charge of the head office.

(*iii*) The internal audit and inspection should ordinarily be conducted once every year on a surprise basis. The verification of stocks pledged or hypothecated to the bank (which should also be on a surprise basis) should be carried out once in each quarter. While drawing up the inspection programme, it should be ensured that an official does not visit the same branch consecutively.

(*iv*) In the case of large branches, the audit and inspection may be taken up simultaneously and one or more Internal Auditors may be deputed to assist the Branch Inspector. The size of the inspection team should be sufficiently large so as to complete the audit and inspection expeditiously. It would also be desirable for banks to carry out concurrent audit of their large offices in metropolitan cities.

(*v*) Apart from the examination of various assets and liabilities of a branch outstanding at the time of audit, a test check of some of the transactions effected since the date of last audit on random sampling basis and a percentage check (say 5 to 10 per cent) of the account opening forms, specimen signature cards, notings in respect of cheque books issued, recording of stop payment instructions, compliance with standing instructions, etc., should be made by the Internal Auditor.

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(*vi*) In order to ensure that audit and inspection are thorough and exhaustive, a check list on the lines of the 'Hand Book for Bank Inspectors' prepared by the Bankers Training College should be supplied to the inspection staff.

(*vii*) The Branch Inspector should arrive at an overall assessment of the working of the branch on the basis of the findings of audit and inspection as also financial and management ratios of its working and classify it according to its standard of efficiency. A research institution like the National Institute of Bank Management may compile a suitable scheme for rating of the branches on scientific basis for adoption by banks.

(*viii*) The inspection staff should make efforts not only to detect frauds, if any, committed by employees and/or others but also to find out laxity or loopholes in the procedures.

(*ix*) Any serious irregularity reported to the head office by the Internal Auditor or the Branch Inspector should be immediately brought to the notice of the Chief Executive Officer of the bank, who may, if considered necessary, refer it also to the Board of Directors/Executive Committee. The irregularities should be followed up vigorously till they are rectified. At the end of each quarter, the Audit and Inspection Department should prepare a memorandum on the basis of the inspection and audit reports received during the quarter for submission to the Board of Directors, bringing out, *inter alia*, major irregularities observed and action taken or proposed to be taken to rectify them. (Paragraphs 11.86 to 11.96)

130 There is a need for bringing about uniformity in various forms, documents, nomenclature, terms, accounting procedures and norms used for deciding various matters by the National Banks as also for creation of a common agency, in due course, to carry out internal audit and inspection of the branches of these banks. A committee may be appointed under the auspices of the Reserve Bank of India : (*i*) to consider the question of creation of a common internal audit and inspection agency and (*ii*) to formulate standard forms and procedures, keeping in view the advantages of mechanisation on a planned basis for rendering better customer service. The standardised procedures and forms should be reviewed from time to time and necessary changes made in them to ensure maximum efficiency and customer convenience. (Paragraphs 11.97 to 11.99)

131 Branches should not be required to submit statements of all outstanding advances (other than Uniform Balance Book returns) at frequent intervals and it will be adequate if such statements are called for once

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	every year at the time of the annual closing. Branches should not also normally be required to submit periodical returns giving details of advances sanctioned by the branch officials within their discretionary powers. The control of head office over advances through periodical returns should relate mainly to irregular advances, the position of other advances being examined during the course of annual inspection of branches. Separate statements of irregular advances may be prepared for different categories of advances and sent on different dates of the month so as to stagger the work at the branch and facilitate scrutiny at the head office. As regards the advances involved in litigation, a return may be sent at quarterly intervals. (Paragraphs 11.102 and 11.103)
132	The control returns should be scrutinised at the head office by the supervisory staff and, where necessary, prompt follow-up action should be taken through the regional offices. All advances indicating serious irregularities should be immediately brought to the notice of the top management. Internal Auditors, during their visits to branches, should make test check of the statements sent to the head office and regional office. (Paragraph 11.104)
133	Banks should organise and/or strengthen Organisation and Methods, Economic and Statistics, and Public Relations Departments. They should also have separate departments for Management Development and Budgetary Control (see recommendations 173 and 214). The heads of the Organisation and Methods Department of different banks should meet periodically, say once every half-year, for exchanging information regarding the studies made by them; the Reserve Bank of India may take the initiative in this matter. Further, the banks which have not so far introduced a scheme for obtaining suggestions from their employees for improving methods and procedures should do so at an early date. (Paragraphs 11.107 and 11.108)
134	Banks having a sizeable network of branches should create or reorganise regional offices keeping in view the need to decentralise authority. Regional offices should be granted adequate powers not only for sanction of the bulk of the advances proposals emanating from branches but also in regard to administrative matters. They should be placed under the charge of experienced and capable senior officers who should not be overburdened with routine work. Such offices should maintain specialised cells on functional basis with adequate trained staff for assessment of advances proposals from different sectors and for supervision and review of advances granted to them. They should also maintain a close contact with the branches and review their working periodically. (Paragraphs 11.109 to 11.115)

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135	Delegation of discretionary powers to branch agents to sanction advances to small borrowers should be liberalised keeping in view the needs of different areas in which the branches function. While vesting discretionary powers, the head office should prescribe an overall ceiling on the total amount of credit that could be advanced at each of the branches to various categories of borrowers based on their annual plans in order to ensure equitable distribution of credit in relation to the bank's total available resources and in the context of liquidity requirements. Delegation of authority should be reviewed at least once in two to three years and discretionary powers should be varied, if necessary, according to requirements. (Paragraphs 11.116 and 11.117)
136	The provisions of Section 292 of the Companies Act, 1956, may be suitably amended so that in the case of banking companies, the Board of Directors is enabled to authorise the Chief Executive Officer or a Committee of Directors to exercise the powers of the Board in regard to specifying the total amount upto which loans may be made by the delegates, the purposes for which the loans may be made and the maximum amount of loan which may be made for each such purpose in individual cases. (Paragraph 11.118)
137	The question of standardising the form of import letter of credit and the form of payment order relating to foreign mail and telegraphic transfer as also revision of monthly statement of import letters of credit may be considered by the appropriate authorities. (Paragraph 11.120)
138	A committee may be appointed by the Reserve Bank of India to thoroughly examine the various procedures prescribed under the Exchange Control Regulations. There should be adequate representation on this committee of different interests, *e.g.*, authorised dealers, exporters, importers, travellers, etc. (Paragraph 11.121)
139	In order to ensure expeditious and proper disposal of complaints, complaint-cum-suggestion boxes should be provided at all branches of banks for use of the public. Regional manager or development officers attached to regional offices, on their visit to the branches should spare some time to hear the grievances and suggestions of the local constituents. (Paragraph 11.122)
140	Banks should take steps to improve the lay out in their offices in order to enchance the efficiency of the staff as also for improving the customer service after conducting studies of office routine. (Paragraph 11.126)

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141	To begin with and on an experimental basis, administrative offices of banks may remain fully closed on Saturdays and, to compensate for the loss of man hours, the working hours on other week days should be suitably enhanced. The question of introducing similar change in the bank offices dealing with the public may be considered later. (Paragraph 11.127)
142	Branches of banks at rural and *mandi* centres should be kept open in the evening, if necessary, by suitably reducing the working hours in the day time. In the residential areas at urban centres, wherever feasible, working hours should be in the mornings and evenings to suit the convenience of the clientele. (Paragraphs 11.61 and 11.127)
143	There is a scope for modifying the pricing system of the banks, particularly those in the public sector, in such a way that in fixing charges levied on the different customers, the use they make of the banking system is taken into account. (Paragraph 12.80)
144	The profit objective of the national banks should be such as to ensure: (*i*) the return at a specified rate to the Government of India on its investment after meeting the requirements for purposes of expansion and modernisation as well as for strengthening the various units, and (*ii*) adequate cover for risk assets. In order to cover the risk assets adequately, the national banks should be required to classify their loans and advances (including bills purchased and discounted) into different categories, say, (*i*) regular advances, (*ii*) substandard advances, (*iii*) doubtful advances, and (*iv*) bad debts. The Reserve bank should lay down the guidelines for being followed by banks in making such classification and should also specify the percentages at which provision should be made for different categories of advances. The external auditors should be required to examine, during the course of their audit, the classification and also the provision made, and certify that it is adequate. The Reserve Bank may, if necessary, vary the rates of provision for all banks or for any particular bank from time to time. Adequate provision should also be made for depreciation in assets other than advances. The banks in the private sector should also be persuaded to follow similar policy in regard to making provisions and appropriation of profits. (Paragraph 12.81)
145	With the nationalisation of major banks the public are entitled to know the true and fair position of banks through their published accounts. Further, the protection afforded to the depositors by the Deposit Insurance Corporation and to banks by Credit Guarantee Organisation/Corporation in respect of advances to small scale industries and

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small borrowers, renders the maintenance of secret reserves superfluous. Also as larger provision for risk assets is expected to be made by banks in terms of the Recommendation No. 144, banks in India need not keep a part of their reserves secret. [See also Recommendation No. 335] (Paragraph 12.82)

146 From the point of view of maximum deposit mobilisation, the deposit interest rate structure has to conform to the expectations of the public about the appropriate rates for deposits of different terms. Research to determine which rates need revision and in what direction should be initiated by the appropriate authority. (Paragraph 12.83)

147 The effects on servicing costs because of shifts in the distribution of deposits between current, savings and fixed, consequent on changes in interest rates for deposits, is also an area in which research is needed to ascertain the direction and the magnitude of such effects. This research should also be initiated by the appropriate authority. (Paragraph 12.84)

148 The main elements of the pricing system for deposit accounts should be the following: (*i*) minimum balances should be prescribed for each type of account, (*ii*) the extent of free facilities should be dependent on the size of the account, (*iii*) a charge per transaction should be made if the balance in the account is below the minimum, or the total number of transactions in a period exceeds the maximum allowed for the account, and (*iv*) consideration should be given to the need to encourage the banking habit particularly amongst the small account holders. In the case of advances, emphasis should be on cost reduction through procedural improvements, especially in the case of priority sectors. The schedule of charges should be fixed on the basis of comprehensive data on costs. A more correct way in this regard would be to fix the maximum levels of charges according to the size groups of the banks and the average costs of banks in the group, rather than on the basis of the averages for all banks. It is also important to keep a watch on how the revision of charges actually works out in practice; if it results in overfulfilling the profit objectives, suitable adjustments should be made to lower the schedule in the interests of spreading the banking habit. (Paragraphs 12.85 to 12.87)

149 Banks should examine carefully their existing procedures and methods of handling foreign exchange transactions and also for developing methods of cost and profitability analysis in this field. The implications of changes such as the exchange rate adjustments of currencies and use of wider margins for spot rates, on the banks and their custo-

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	mers, need to be studied. Further work in this matter should be done by bankers who have the necessary expertise. (Paragraph 12.88)
150	The relevance of the prescription of minimum rates by Foreign Exchange Dealers Association (FEDA) for the different types of commission charges in the present context needs to be examined. In this field, the maximum should be related to the average of the cost of the banks. (Paragraph 12.89)
151	The profitability of co-operative apex and central banks can be improved : (*a*) by bringing down excess cash reserves for which the authorities should 'notify' for the purposes of the Banking Regulation Act, 1949, all National Banks with whom balances are maintained to facilitate remittances and other operations, and the co-operative banks giving attention to better management of resources, and (*b*) by efficient management of liquid assets, by diversifying activities and improving the absorbing capacity of primary societies. Also, the validity of policies being pursued now to increase the capital base of co-operative banks through members' contribution as well as Government participation has to be re-examined to ensure a reasonable return on capital. (Paragraphs 12.90 and 12.91)
152	In evolving a method for profitability analysis of bank branches, it should be ensured that the method truly and fairly measures the profit performance of a branch against the background of the policies of the bank. The banks, particularly those in the public sector, should adopt a practice in regard to transfer prices which is suitably designed to the needs of the times. A method based on the Central Pool concept and weightage on the basis of various priorities should be adopted. This will assist banks in making their branches conform to their overall policies and objectives. The calculation of rates to be charged for transfer price mechanism should be done at quarterly intervals. Whenever a major change affects either the level of the interest rates or their pattern, the transfer price should be revised. Institutions engaged in banking research should do further work on this and similar matters. (Paragraphs 12.94 to 12.96)
153	Research should be carried out bankwise in order to find out the scope for increasing banks' profitability by increasing the business of their branches. (Paragraph 12.97)
154	One of the major organizational weaknesses of the banks in India is the absence of a well designed Management Information System (MIS). The MIS in banks should be organised in such a way as to provide in

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compact, comprehensive and condensed form all the requisite information necessary for the purposes of policy formulation, performance evaluation, control, economic analysis, etc. Information for the Manager must be regular, prompt and in a form which serves as an effective aid to decision-making and in signalling approaching events and developments. Regular needs of the various parts of an organisation should be taken into consideration. (Paragraphs 13.1 and 13.2)

155 The MIS for the banking sector has to serve the following purposes :

(*i*) to ensure from time to time that the requirements prescribed by the law relating to banking are satisfied ;

(*ii*) to ensure satisfactory implementation of the monetary and credit policy ;

(*iii*) to ensure a high level of operational efficiency ; and

(*iv*) to provide information to the general public regarding the working of the banking sector.

(Paragraph 13.5)

156 The information system should provide for tabulations at State and district levels apart from the all-India level in respect of the following :

(*a*) Banking Services —

(*i*) Deposits,

(*ii*) Advances including Bills,

(*iii*) Foreign Exchange,

(*iv*) Remittances, and

(*v*) Other Services.

(*b*) Geographical Spread ; and

(*c*) Operational Efficiency —

(*i*) Profitability of different services,

(*ii*) Profitability of Branches,

(*iii*) Management of Liquid Assets, and

(*iv*) Personnel.

At all levels, the information should provide a basis for control, evaluation of performance and development of business. (Paragraphs 13.7 and 13.8)

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157	Instead of the present practice of prescribing the format of returns under the statute, the Reserve Bank should be given powers to prescribe it. (Paragraph 13.10)
158	If it is not found feasible for any reason to adopt the suggestion that the Reserve Bank should be given powers to prescribe the formats of statutory returns (see previous recommendation), these returns should be amended as recommended by the Inter-departmental Committee on Banking Statistics set up by the Reserve Bank. (Paragraph 13.10)
159	Different authorities ask for information which varies only slightly in content. There is, therefore, great need at the Reserve Bank of India and in the Government as also in each individual bank, for well-defined points which prescribe what returns may be called for, receive these returns and from where all information is disseminated to various user departments. (Paragraph 13.12)
160	It is necessary that each bank has a statistical cell which is responsible for : (*i*) planning and developing statistical series; (*ii*) securing timely and accurate statistics in periodical returns; (*iii*) training branch level staff concerned with this work ; (*iv*) rationalising the data needs and returns; and (*v*) processing and analysing the trends and patterns in the data. This cell should be attached to the Planning or Development Department and not to any operational department. No new form or return should be prescribed without reference to this cell. (Paragraph 13.13)
161	It is necessary that, wherever possible, and particularly in situations where 100 per cent accuracy need not be aimed at, collection of figures by the Reserve Bank of India or the Government is organised on a sample basis. This will have the effect of reducing costs and providing *known* margins of errors. (Paragraph 13.15)
162	Banks should increasingly take to codification of accounts and use high speed machinery for processing the data. The system of ledger keeping should be such that information can be readily culled out for different sectors of the economy such as Government-sector companies, private-sector companies, individuals, priority sectors, etc. (Paragraph 13.16)
163	The information flow for deposits should be based upon : (*i*) A monthly return by all branches of the bank giving total deposits and the number of accounts under various heads and total advances on the lines of Form M-1 with certain modifications.

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(*ii*) An annual return on the lines of Uniform Balance Book (UBB), giving figures for individual accounts. This information could be collected for all branches for all deposit accounts showing a balance of say, Rs. 5,000 or over. For the rest it could be collected only from a sample of branches. A complete picture of deposit distribution among regions, among different classes of ownership, and by size of deposits and patterns of interest rates of deposits can be built up. For the study of the velocity of bank money, summations of debits can be incorporated in the return. Such a return should be obtained once a year. The Department of Statistics of the Reserve Bank of India may be requested to evolve a suitable sampling design.

(*iii*) For quick information as regards changes in deposits by categories, it would suffice to keep the figures of certain large branches under constant observation.
(Paragraph 13.18)

164 The Uniform Balance Book form needs to be redesigned in a manner which would enable banks to use it as a fan-fold of the balance book. To avoid repeating the fixed information every month, each account could be given a reference number at the time of opening the account. The fixed information in respect of each account should be submitted to the Reserve Bank of India as soon as it is opened and in monthly returns the reference number and the amount outstanding should be supplied. The fixed information can be updated on an yearly basis.
(Paragraph 13.20)

165 For advances, the data flow structure should be :

(*i*) The UBB should be the main form for detailed information and for analytical purposes. In view of the markedly skew distribution of advances by size, it may not be necessary to prepare tabulations on the basis of all entries. A cut-off point can be prescribed while processing the data.

(*ii*) The frequency of the modified UBB return should be monthly. The processing of data may be done so as to have tabulations based on (*a*) all entries twice a year (*e.g.*, March and September), (*b*) on loans and advances of Rs. 10,000 and above for two other quarters of the year (June and December), and (*c*) monthly for all advances of Rs. 1 lakh and above. In addition, the figures of total advances should be obtained, classified according to district, State and for all-India population groups, etc. Quick feed-back should be arranged for.

(*iii*) For the purposes of watching the movement of advances against the security of commodities under the selective credit controls,

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it would suffice if 800 to 900 *largest* branches relevant to sensitive commodities, *i.e.*, commodities subject to selective credit control, are selected for quick information purposes and tabulations of advances by security are prepared for these selected branches. A purposive sample of branches can be selected to give information for about 80 per cent or more of total advances against each given important security.

(*iv*) The data collected for priority sectors should not be in different sets of forms for the purposes of different authorities. A common set of forms as part of the UBB should be evolved for each priority sector. These forms should all be received in one department in the Reserve Bank of India from which information can be made available to different agencies.

(*v*) Banks should also base their information collection of these forms as far as possible and refrain from prescribing additional forms. Though there may be arrangements for feed-back of data on the basis of tabulations of the UBB, banks may need to compile data on advances to priority sectors according to district, region and State.

(*vi*) With a view to enabling banks to submit purposewise returns without difficulty as well as to underscore the basic change in lending policy, the banks' ledgers should be maintained according to purposes rather than according to the type of account. This change has to be done gradually and would need loose-leaf ledgers.

(*vii*) For the banking system as a whole, the Reserve Bank of India and for its own purposes each individual bank should constantly keep under review the movement of hypothecated and pledged commodities (in physical terms), particularly the speculative commodities or those brought under selective credit control, on the basis of stock statements submitted by borrowers. Study of variations in these movements will be useful for control as well as analytical purposes.

(*viii*) The information from the UBB can be used for the purposes of Credit Intelligence Bureau (see Recommendation No. 117) which could conveniently work in co-operation with the organisation which processes the data from the UBB.

(*ix*) Systems of credit scoring for borrowers from priority sectors should be developed on the basis of the association between personal data relating to the borrowers and the recovery of the loans. The Credit Intelligence Bureau should organise such research. (Paragraph 13.21)

166 The information tabulated by the Reserve Bank of India for the purpose of compiling the balance of payments data would be of consider-

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able use to individual banks in judging their performance *vis-a-vis* the total volume of work handled by all the banks. There should be a system of feed-back of information from Reserve Bank to individual banks, by supplying to each bank consolidated statements showing the various types of exports, imports and other business handled by it as a proportion of the total. (Paragraph 13.23)

167 Information on the numbers and amounts of remittances of main types issued and paid by the various branches will be valuable for giving geographical pattern of money flows. The banks can suitably classify the information at the point at which the inter-branch reconciliation is handled and supply it to the authorities. (Paragraph 13.24)

168 As regards geographical expansion of branches, each branch should be properly briefed on the type of information it has to supply to the various authorities and its frequency. Standard booklets giving the various proformae and instructions on filling them up should be prepared and supplied to the branches. (Paragraph 13.26)

169 The MIS should clearly bring out the inter-relationships between the levels of volume of business, costs and related income so that the managerial decision-making leads to improved profitability. For this purpose, the accounting system of banks in India should be re-oriented by the blending of the cost and financial accounting into an integrated system which combines and co-relates the collection, analysis, interpretation and reporting on each of the three aspects, *viz.*, the output, cost and income. (Paragraph 13.28)

170 (*i*) A regular record needs to be maintained at the branch level of all physical outputs, *e.g.*, vouchers, number of drafts handled, etc., according to the type of services besides the data on deposits and advances.

(*ii*) It is also necessary to organise a sample survey on a regular basis to obtain accurate estimates of unit costs and income for the different types of outputs for representative types of branches. Such estimates of unit costs and income used in conjunction with the record of the physical outputs and the monetary data and of the earnings and expenses relating to the branches will enable evaluation of efficiency and profitability of branches.

(*iii*) The sample survey should be conducted by a central agency which may be either the Reserve Bank of India or an agency set up by it in collaboration with the scheduled banks—both commercial and co-operative.

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(*iv*) This Agency should prepare the sampling frame for commercial banks and co-operative banks, conduct pilot studies to effect necessary improvements in the sampling frame, collect suitable data and analyse it. The methodology followed by the Study Group on Banking Costs in the survey conducted by it would be useful as a starting point though it can be improved upon in the light of further experience.

(*v*) The Agency should advise each bank of the costs and income for representative types of branches and also the average costs and income for each of the large and medium-sized banks taking into account the details of their branch network. It should also calculate all-India averages for the various costs and income so as to help the authorities in framing their policies in regard to interest rates on deposits and advances and the various charges levied by the banks. (Paragraph 13.30)

171 On the basis of quarterly returns received from branches showing the particulars of their outputs, the head office can work out what the total costs for the branch should have been by using the unit cost figures for the different activities supplied by the Agency, for the representative branch type. The ratio of the actual cost at the branch to the estimated costs would be the cost index for the branch. This will provide the management with a fairly good idea of the efficiency at branch level and would enable it to take appropriate corrective action. (Paragraph 13.31)

172 Banks can improve profitability through the use of proper techniques in respect of the cash held by themselves at the various branches. As regards holdings of cash, the techniques of inventory control can be applied with suitable modifications. The MIS for this purpose can consist of collecting regular information on holdings of cash by the important branches accounting for say 75 per cent of the cash balances. This together with the data on types and amounts of deposits, advances and remittances would enable appropriate action. (Paragraph 13.32)

173 Operational efficiency can be achieved through a proper planning of the year's activities sufficiently in advance and by fixing targets for performance and income, and limits for expenditure. On the basis of business survey reports received from the branches and the prevailing monetary policy, the head office of each bank should formulate its overall performance targets for the year and invite each branch to fix its own share of the overall targets through budgets prepared separately for different types of activities. Budgets may be prepared for the calendar year with a system of monthly reporting. The banks'

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	Boards of Directors should review each month the consolidated budget reports in order to compare the actual working results with targets. The exercise of budgetary control should be made as simple and understandable as possible, and willing co-operation at all management levels should be ensured. (Paragraphs 13.34 to 13.37)
174	For measuring productivity of the employees, it will be necessary to fix man-hours required (officer and clerical) for various types of jobs. This should be done by the bank itself for internal use, *i.e.*, inter-branch comparison and by the central agency in respect of representative branches for facilitating comparison of inter-bank efficiency. Once this is done, it should be the responsibility of the Personnel Department to evolve methods by which a reduction in unit cost can be brought about. (Paragraph 13.39)
175	Compilation of stock statements can be organised at the Reserve Bank of India level, in respect of trade particularly, and time series maintained for different States, in order to provide additional information which is lacking at present and which would be very useful for policy purposes. (Paragraph 13.40)
176	Banks can give information on income and expenditure, value added, capital invested, sources and uses, etc., in respect of small scale industries. Banks should be in a position to canvass a simple, short schedule for the annual accounts and balance sheet data for their clients in this sector. The data could be centrally processed by the Reserve Bank of India. (Paragraph 13.40)
177	The information needed periodically for judging the impact of a new scheme can be called through a special progress report, the format and the periodicity of which would depend upon the type of the scheme and its importance. The information content in such a return should, however, be restricted to the purpose for which it is called. Once this scheme has been accepted and has settled down, the return should be discontinued. (Paragraph 13.40)
178	A central institution like the Reserve Bank of India should have a Survey Organisation for conducting large scale surveys from time to time with competent field staff spread over the country. A Standing Committee of Direction could be vested with the function of planning and the content of surveys. It could plan a series of surveys so that each type of survey is repeated every few years. Thus, for instance, surveys on rural debt and investment, urban incomes and savings, small scale industries, etc., could be taken up in rotation. (Paragraph 13.41)

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179	To develop the feed-back system to serve not only different levels of management in banks but also of thc Reserve Bank of India and thc Government of India it is necessary to ensure prompt submission of accurately filled up returns by branches and banks and organise computerisation of data processing. A common feed-back system should be based on a common set of tabulations. Any changes in the set should be made only after careful consideration of the various requirements that may have been intimated. (Paragraphs 13.43 and 13.44)
180	Properly organised data processing centrcs with adequate mechanical equipment should be created after carefully considering the recommendations proposed to be made in this regard by the NIBM Study Group on Information Systems. A Committec of Direction or a Steering Committee may be set up to consider the feasibility of the various alternatives in this respect such as individual bank-owned Computer system, a separate corporation, or a Reservc Bank system. (Paragraphs 13.55 and 13.58)
181	The recommendations on Managemcnt Development for commercial banks can also bc applied after suitable modifications to urban co-operative banks. Facilities for training the employecs of urban co-operative banks, rural banks, chitties, nidhis and other similar financial institutions should be provided by commercial banks in their training colleges and ccntres on reasonable payment. (Paragraph 14.4)
182	In the ficld of training co-operative bank personnel and research on problems relating to co-operation, the Vaikunth Mehta National Institutc of Co-operative Management should play a role similar to that of the National Institute of Bank Managemcnt in relation to commercial banks. The Vaikunth Mehta National Institute should make usc of the training methods and techniques developed by the National Institute of Bank Management, the Bankers Training College and similar other institutions while designing the training programmes for the staff of co-operative banks. Whilc formulating a comprehensive scheme for on-the-job training of co-operative bank employees in commercial banks (see Recommendation No. 115), it should be ensured that there is proper co-ordination between the theoretical and practical training. (Paragraph 14.5)
183	Banks should maintain proper inventories of their existing personnel on branch, regional and circle level, formulate business plans and, make estimatcs of the requirements of personnel of different categories. The plans should be reviewed periodically in the light of business development and number of persons actually employed by banks. (Paragraph 14.7)

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184	The search for suitable talent should not be restricted to the first point of entry in a bank (the clerical level), but should also be extended to attract sufficient number of persons who possess executive potential. With the functional enlargement of banking and the adoption of customer-oriened approach, the need for specialists in banks has increased considerably. Apart from the subordinate staff, the recruitment in banks should, therefore, be at three levels, *viz.*, clerical, junior officers and specialists. (Paragraph 14.8)
185	For recruitment at clerical and cashier level (excluding typists, telephone operators and other technical personnel), an applicant should at least be a graduate and of an age not exceeding 24 years. Suitable relaxation in the minimum qualifications and the maximum age limit may, however, be allowed in respect of candidates belonging to scheduled castes and tribes; but even in their case the standard should not be lowered below matriculation. Extraneous considerations such as sons of the soil, relations of existing employees, etc., should not be given any weight as they tend to fetter objective selection on the basis of merit. Selection tests should be so devised that graduates with rural background are not barred from getting selected. (Paragraph 14.11)
186	The advertisements for recruitment should not only indicate the minimum qualifications for the job but should also describe the range of duties, the service conditions and the future prospects. (Paragraph 14.12)
187	The selection process should consist of written tests and interviews. The time lag between the receipt of application and selection should be restricted to a reasonable period of say three months. (Paragraph 14.13)
188	A set of written tests should be formulated in the light of the experience gained as a standard examination procedure for clerical candidates aspiring for employment in banks. Tests should judge not only the candidate's ability to perform clerical duties but also evaluate the potential to shoulder the responsibilities of an officer in due course. A carefully designed test of general knowledge covering a wide range of subjects including those relating to rural background should form part of the examination and sufficient option should be given to the candidates for answering questions of their choice, so as to eliminate bias against candidates coming from rural areas. (Paragraph 14.16)
189	Interview should follow the written test and should be restricted to those candidates who have passed the written test. The interview

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	should be considered as one of the subjects of examination having about 20 per cent of the aggregate marks. It should be obligatory for a candidate to obtain minimum pass marks for each test (including *viva voce*) to become eligible for selection. The ranking for placement in the waiting list should depend upon the aggregate marks obtained in written as well as oral examinations. (Paragraph 14.17)
190	Opportunities for competing for recruitment at junior officers' level should be kept open to the existing staff. The proportion for internal promotions and recruitment from open market should be two to one for the present, subject to review after a few years. (Paragraph 14.18)
191	The minimum qualification for the junior officers' post should be graduation with high second division marks (over 55 per cent) and the maximum age limit should be 27 years. The recruitment should be open to graduates in any subject but preference should be given to those holding degrees in commerce, economics and business administration by allotting to them specified additional marks in the selection test. For the candidates who are already in the employment of banks, the age limit should be relaxed by three years. Outside candidates belonging to scheduled castes and scheduled tribes should also be allowed relaxation in the age limit by the same number of years. (Paragraph 14.19)
192	The selection procedure for junior officers, as in the case of clerical staff, should consist of a written test and interview but with accent on testing initiative and enterprise, general intelligence and logical thinking. Standard tests for selecting officer staff should be evolved in the light of experience gained. (Paragraph 14.20)
193	As the major portion of the banking industry is now in the public sector, there should be a common agency for recruitment of staff for these banks both at the clerical and junior officers' level. This agency could be named the 'National Banking Service Commission'. To vest it with proper authority, it may have to be created statutorily. The provisions for its membership, functions, jurisdiction, etc., may be on the lines of those for the Union Public Service Commission. (Paragraph 14.21)
194	The National Banking Service Commission may conduct examinations at regional levels for clerical staff and an all-India competitive examination for junior officers' cadre. Waiting lists of selected candidates current for a specified period, say two years, may be prepared and allotment may be made to different banks according to their require-

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	ments. The allotment in the case of junior officers may be on all-India basis and that in the case of clerical staff on regional basis. Before the Commission can start functioning effectively, salaries and other emoluments of the staff of the National Banks at various levels will have to be standardised and this work should be taken up in right earnest by the Government of India. Expenses of the Commission should be shared by the National Banks. (Paragraph 14.22)
195	The co-operative banks have also to adopt a systematic recruitment policy in order to improve the quality of their staff. They should avail of the services of the National Banking Service Commission on mutually agreed terms. Commercial banks in the private sector desiring to make use of the services of the Commission should be able to do so on mutually agreed terms. (Paragraph 14.23)
196	Recruitment of specialists may be made as and when required through the National Banking Service Commission, which may prescribe appropriate eligibility standards, procedures and test for the purpose. To provide adequate career development opportunities to these categories of employees, there should be a common pool for each type of specialists for all the National Banks and the incumbents may be transferable from one bank to another. (Paragraph 14.24)
197	For judging the ability of employees for promotion, banks should maintain proper service records and introduce scientific procedures for performance appraisal. Standard forms and methods should be devised for evaluating job performance of various categories of bank employees. The appraisal should bring out with clarity the strengths and weaknesses of the employee which should be discussed with him in a post-appraisal interview in order to give him an opportunity for self development. The appraisal reports together with job analysis should be used for proper placement of personnel in posts suited to their skills, interests and abilities. (Paragraphs 14.25 to 14.28)
198	It is necessary for banks to formulate specific programmes for grooming suitable people to occupy executive posts. Maintenance of 'Management Chart' will be helpful in this regard. (Paragraph 14.29)
199	All posts below the junior officer's level should be filled in by promotions on the basis of seniority-cum-merit as revealed by the appraisal reports without any written examination and/or interview. However, for filling in the posts of junior officers reserved for internal promotions, a qualifying examination should be conducted at various centres by the National Banking Service Commission for the National Banks. The co-

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	operative banks should also arrive at an arrangement with the National Banking Service Commission for conducting a qualifying examination for their staff. Banks in the private sector may either hold their own examinations or make an arrangement with that Commission in this regard. The employees who have completed at least five years' service in the clerical cadre with satisfactory performance record irrespective of their age, should be allowed to appear for the qualifying examination. Those who pass the examination should be ranked on the basis of seniority for the purpose of promotion. The maximum number of chances to be allowed to an employee to appear for these tests should be three. (Paragraphs 14.30 and 14.31)
200	Once an employee has either been selected or promoted as a junior officer, he may be allowed to reach the middle management level, without further screening, on the basis of seniority-cum-ability. There should, however, be a selection grade for posts carrying senior executive responsibility. Posts which involve control over branches in a region or taking policy decisions or which carry at the beginning of the scale total emoluments (including perquisites) of Rs. 2,000 and above, may be covered by the selection grade. For the National Banks the selection may be made by the National Banking Service Commission. The candidates selected should be transferable from one national bank to another. (Paragraph 14.32)
201	A clerical employee after recruitment should be given induction training for a short period. He should then receive a week's training in a particular banking service on the basis of programmed learning material. The employee should, thereafter, work in a branch on that particular desk for six months. This process should be repeated in regard to other banking services so that the employee works on all the different desks in a branch in about 4 to 5 years. (Paragraph 14.45)
202	The direct recruits to the junior officers' cadre should also be given induction training and on-the-job training with the help of programmed learning material, but the duration of their training period should be about one year. All junior officers (internal promotees as well as direct recruits) after about three years' working in that capacity should be given training in a general banking course designed to equip them to discharge the duties of Accountant/Branch Manager. They should also be trained in short duration specialised courses, *e.g.*, finance to priority sectors, organisation and methods, management of human resources, etc. Their entire training on the above lincs should be completed within 5 years from the date of their becoming junior officers. (Paragraph 14.46)

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03 Training should be an integral part of the general organisational process and there should be a proper link between training and overall personnel policies. Selection of employees for training should be made on the basis of well-planned policies of career development and executive succession. A person trained in a specialised aspect of banking should be given an opportunity to make use of the knowledge and skill gained by posting him in an appropriate position. (Paragraph 14.47)

204 The banks which do not have adequate facilities for training their officers and other staff should make the necessary arrangements by extending the scope of the existing training centres and colleges and/or by opening new colleges and centres. They should also make sufficient arrangements for infrastructure. For proper co-ordination of the training programme, training centres should work as wings of the training colleges of the respective banks. Small banks may not, however, be in a position to afford their own training colleges or centres. Such banks in contiguous areas should join together and establish joint colleges. Where, however, a small bank still has a difficulty in imparting training to its staff, larger banks should afford the necessary facility in their staff training colleges and centres. The officers of small banks should also participate in courses conducted by the National Institute of Bank Management and the Bankers Training College. At a later stage, when the banks adopt uniform procedures and methods, it may be desirable to organise training colleges and centres on a regional basis with collaboration of the concerned banks rather than each bank having its own college. (Paragraph 14.48)

205 The faculty of the training colleges and centres of commercial banks should be strengthened. The principals of colleges should be chosen from experienced but dynamic senior executives with a *penchant* for development work. About 50 per cent of the total strength of tutors should remain in the training colleges on a permanent basis and the others should be taken on a deputation basis. The salary scales and promotion potentialities in the colleges will have to be suitably revised to make this suggestion workable. Every endeavour will, however, have to be made to ensure that the tutors keep themselves in touch with current banking problems and developments. Care should also be taken to see that those who go back to the operational work in the bank are not affected adversely in their prospects for promotion, merely because of their deputation to the colleges. Experience in the college should be considered as a point in favour of the concerned employee.

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206	In view of the magnitude of the problem of training bank staff, the National Institute of Bank Management should undertake the task of planning, co-ordinating and directing the training programme. It should work on the lines of a University and the colleges of all commercial banks as well as the Bankers Training College should be its constituent units. To ensure proper co-ordination and synthesis of various views on matters pertaining to the planning and execution of training, a body on the lines of Academic Council of a University comprising the representatives of the Reserve Bank of India, National Institute of Bank Management, Bankers Training College, other constituent colleges and experts in various fields connected with training may be constituted by the National Institute of Bank Management. A representative of the Institute should also be on the Managing Committee of each constituent college. Once the above arrangements come into effect and the provision of necessary physical facilities is made by the banks, the training programme should be so planned and implemented that, within a period of three years or so, the entire backlog of training the bank staff is cleared and adequate arrangements are made to meet the current training needs. (Paragraph 14.50)
207	Apart from planning, co-ordination and directing the training programme, the National Institute of Bank Management should design training courses and teaching material. The training of senior officers should also be undertaken by the Institute. In such training, the emphasis should be on managerial aspects rather than on banking techniques. The Institute should also continue its research and consultancy work. It should further consider conducting, in due course, diploma, degree and post graduate courses in banking for the bank employees. (Paragraphs 14.51 and 14.52)
208	The internal set-up of National Institute of Bank Management should be strengthened by having a good admixture of the academic personnel and bankers with experience in commercial and central banking. These bankers should be invited to serve on the faculty as full-time members for the periods of three to five years, so that their experience is fully drawn on in the operation of the Institute's programme. (Paragraph 14.53)
209	In addition to providing training facilities to the Reserve Bank Officers, the functions of the Bankers Training College should continue to be to train bank officers in specialised courses. The College should also carry on the work of designing new courses, revising existing courses and that of imparting training to trainers in collaboration with the National Institute of Bank Management. By virtue of its special

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position, the Bankers Training College should function as the most important constituent college of the National Institute of Bank Management. (Paragraph 14.54)

210 The C.A.I.I.B. examinations should be redesigned by changing the syllabus suitably so as to make it more practical. Banks should run evening or morning teaching programmes at their training colleges and centres and at some of their branches for preparing their employees for these examinations, and, for this purpose, arrangements should be made for designing teaching courses and preparation of suitable teaching material. In these and other similar matters, there should be a close collaboration between the Indian Institute of Bankers and the National Institute of Bank Management. (Paragraph 14.55)

211 For building up of an efficient professional cadre in the banking industry, it is necessary to introduce a deliberate policy of worker participation. At different levels of the organisation and for important segments of activities, informal committees should be constituted, in which the officials should be encouraged to participate, to deal with matters relating to the developmental activities, performance targets and operating efficiency. (Paragraphs 14.56 and 14.57)

212 Banks should offer incentives in the form of grant of honoraria to employees who acquire knowledge of languages other than their mother tongue. (Paragraph 14.60)

213 There is a need for increasing the element of responsibility in a larger number of jobs and the National Institute of Bank Management should conduct research in this subject for issuing suitable guidelines to banks. It is also necessary for bank managements to eliminate, as far as possible, irritants arising from status consciousness as they act as impediments in proper co-operation and understanding. (Paragraph 14.60)

214 Banks should organise a separate department under a senior executive qualified to handle personnel matters for proper formulation of management development programme and its effective implementation with functions as described in paragraphs 14.61 and 14.62. Committees should also be formed at top managment level to direct the programmes of management development. (Paragraphs 14.61 and 14.62)

215 Early steps should be taken for reorganising the national banks into two or three all-India banks and six other banks each specialising in developing banking services in a broad region, on the lines described in paragraph 15.36. There should be a time-bound programme for

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	mergers or amalgamations of the Indian commercial banks in the private sector which have not shown good performance. (Paragraphs 15.36 and 15.55)
216	There should be no slowing down of the rate of opening new branches, but the new branches of the national banks should be in areas selected on the basis of the principles indicated in paragraph 15.36. Thus, the constituent bank of the proposed regional banks should be asked to open branches within the area of the States in which the regional bank is expected to operate. An all-India bank should concentrate on opening branches at district centres or large towns, whenever there is need for new branches in these centres. (Paragraphs 15.36 and 15.58)
217	Wherever there are too many branches of the national banks in a restricted area, the number should be reduced. The banks, whose branches are closed down on account of such rationalisation, should utilise the released manpower in opening branches in areas allotted to them, particularly in unbanked areas. This may require some inter-bank exchange of personnel. (Paragraph 15.58)
218	In metropolitan cities, both the all-India and the regional banks should be allowed to open branches, so that every bank can have a reasonable share of the business in these centres. (Paragraph 15.58)
219	At the end of 10 years from the commencement of the re-organised banks, there should be a comprehensive review of the manner in which these banks have worked, the size which they have attained and the further organisational changes that will be necessary in the light of the future development of these banks. (Paragraph 15.58)
220	The organisational set up of the restructured national banks should be on the following lines : (*a*) Decentralisation of work at branch offices depending on the size to give the Branch Manager sufficient time to devote attention to planning, co-ordination, control, training, etc. (Paragraph 15.44) (*b*) Setting up of Zonal offices for control and guidance of 200 to 300 branches depending on factors like transportation and communication. This should be backed up by delegation of discretionary powers to the zonal and divisional managers. (Paragraph 15.45) (*c*) Formation of 'Areas' for purposes of collection and processing of statistical data. (Paragraph 15.46) (*d*) The Head Office should do planning and budgeting for the bank as a whole and attend to essential central office functions. (Paragraphs 15.47 and 15.48)

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	(*e*) The top executives should be free to assess matters relating to policy and should divest themselves of routine matters by delegating proper powers. (Paragraph 15.49)
221	A standing committee of the Chairmen of the reorganised national banks should be established for the purpose of securing co-ordination of the regular banking activities of these banks. (Paragraph 15.51)
222	This Committee should function as an advisory body to the policy making authority. (Paragraphs 15.52 and 15.54)
223	An important function of the Committee of national banks' Chairmen would be the supervision and control of the 'Lead Bank' system. (Paragraph 15.53)
224	The foreign banks may be allowed to continue as at present as they have only a limited geographical and functional spread. (Paragraph 15.56)
225	Unless there are some exceptional circumstances, it is not necessary for the present to establish new commercial banks either as independent units or subsidiaries of the existing banks except rural subsidiary banks mentioned in Chapter 8. (Paragraph 15.57)
226	Merchant banking institutions are needed in India to offer the following types of services : (*a*) Syndication, financing and promotion of Indian projects, (*b*) Investment management and advisory services to medium and small savers and to provident funds, pension funds and trusts of various types. (Paragraphs 16.4 to 16.7)
227	Initially, there could be four merchant banking institutions located at Bombay, Calcutta, Madras and New Delhi set up by commercial banks and specialised financial institutions. These merchant banking institutions can later set up branches at other important centres. (Paragraph 16.10)
228	Subject to proper safeguards, other agencies also may be allowed to set up merchant banking institutions. (Paragraph 16.10)
229	Under the present circumstances, merchant banking institutions need not take up acceptance and discounting business because commercial banks are well in a position to do this business. When the bill market

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	is sufficiently developed, merchant banks may also enter it ; also specialised acceptance and discount houses may be formed as joint stock companies for this business as well as for functioning as a money market intermediary. These institutions should work under the conditions prescribed by the Reserve Bank. (Paragraph 16.9)
230	The machinery for providing export credit is adequate and hence there is no justification for the creation of an Export-Import Bank. The present credit arrangements, however, need improvements in the following respects : (*a*) Arrangements should be made to provide exchange cover on reasonable terms in respect of exports made on long-term deferred payment basis. (Paragraph 16.22) (*b*) Export credit facilities at inland centres in the country. (Paragraph 16.19) (*c*) Co-ordination between all export financing institutions should be ensured through Consultative Groups and Informal Groups of I.D.B.I. (Paragraph 16.20) (*d*) For pooling information on foreign markets, creditworthiness of foreign importers, etc., and arranging it systematically, IDBI should obtain information, keep it up-to-date and make it available to commercial banks and others. (Paragraph 16.23)
231	In view of the satisfactory performance of the existing financial institutions in the field of financing of small scale industries and small business and of the costs involved in raising resources for a specialised institution for the purpose, there is no need either to set up a new specialised financing institution or for some commercial banks to specialise in making credit to these sectors. (Paragraphs 16.27 to 16.30)
232	Resources of the existing institutions should be increased, their technical personnel should be improved and conditions be created whereby small industrial units can obtain loans from the organised banking system. (Paragraph 16.27)
233	Credit may be required by consumers for meeting medical, educational and other urgent expenses and the purchase of durable consumer goods. The health and educational insurance and other welfare schemes of the Government should provide for medical, educational and other contingent expenses. For credit for durable consumer goods and consumer consultancy services public limited companies may be formed in the public or private sector. (Paragraphs 16.33 to 16.35)

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234	From the point of view of regulation, the institutions to be set up should be brought under the control of the Reserve Bank of India or any other agency which might be set up for the purpose. It will be useful to have a uniform legislation for the country as a whole with allowances for regional characteristics in so far as the terms and conditions of consumer finance are concerned. (Paragraph 16.35)
235	Though there is scope for mobilising and institutionalising savings, especially in rural areas, an entirely new organisation of specialised savings banks need not be created. (Paragraphs 16.39 to 16.41)
236	A two tier system of housing finance should be created with apex housing finance institution at the national level and local housing finance institutions at the district or regional level sponsored by the local community with active encouragement of central finance institution. (Paragraph 16.56)
237	The primary function of local institutions should be to attract savings linked to provision of credit for construction or purchase of houses and that of the apex institution should be to encourage, supervise and provide temporary finance to local institutions. (Paragraph 16.56)
238	Either the Housing and Urban Development Corporation may be vested with the functions of the central institution in which case it will have to shed its existing non-financial activities, or the central agency should be sponsored by the Reserve Bank of India, which may create a special housing fund to assist the proposed housing finance system. (Paragraph 16.56)
239	Wherever feasible, Housing Boards and Nidhis may be vested with the functions of the proposed local or regional institutions. (Paragraph 16.57)
240	Co-operative Housing Societies should be strengthened particularly with a view to mobilising resources from members and eliminating malpractices. An apex co-operative finance society should be set up in each State to refinance affiliated primary societies all over the State. (Paragraph 16.57)
241	Commercial banks may give short and medium-term credit to the builders in order to enable them to undertake mass housing construction programmes. Prospective purchasers of houses may borrow from the specialised institutions to purchase houses from the builders, who in turn can repay their loans to commercial banks. (Paragraph 16.57)

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242	To the extent their administrative and personnel resources permit commercial banks may also give credit to individuals desiring to own or construct houses. (Paragraph 16.57)
243	The central agency proposed in Recommendation No. 238 should extend refinance facility to apex co-operative societies as well as to commercial banks extending housing loans. (Paragraph 16.57)
244	LIC and general insurance institutions should devise a scheme to guarantee housing loans. (Paragraph 16.56)
245	Steps should be taken to create and develop a secondary mortgage market and impart liquidity to housing loan. (Paragraph 16.56)
246	As the financial and personnel resources in India are limited, specialised financial institutions should be created only if there is a clearly identified credit gap which, for some reason or the other, cannot be filled by the existing financing institutions. (Paragraph 16.60)
247	NBFIs should be regulated with a view to : (*a*) safeguarding the depositors' interest ; (*b*) creating conditions for the growth of dynamic and forward looking NBFIs; and (*c*) ensuring effective implementation of monetary policy. (Paragraphs 17.8 and 17.11)
248	To facilitate regulation the NBFIs should be given inducements to form themselves into corporate bodies. [See also Recommendation No. 340] (Paragraph 17.12)
249	For purposes of regulation, NBFIs should, in general, be classified into two categories, *viz.*, 'approved' and 'non-approved'. While a specified minimum degree of control may be exercised on all NBFIs, the 'approved' ones which will be only corporate bodies and which satisfy certain additional requirements of the regulating authority should be accorded a special and favourable treatment such as refinance from the banking system, coverage of their loans under the Credit Guarantee Scheme and extension of deposit insurance scheme subject to their fulfilling the requirements of Deposit Insurance Corporation. Institutions in each category will be 'approved' on the basis of the judgement of the regulating authority regarding the quality and scope of their operations. (Paragraph 17.12)

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250	Reserve Bank or the regulating authority set up for the purpose will have to strengthen and build up its inspecting machinery so that these institutions can be inspected at least on a sample basis. (Paragraph 17.12)
251	The existence of a large number of small non-corporate bodies is a weak link in the chain of hire-purchase finance institutions. In order to strengthen the financial position of these agencies, facilitate regulation, bring down the level of finance charges, the policy objective should be to institutionalise hire-purchase credit and encourage formation of strong units. (Paragraph 17.16)
252	All hire-purchase finance units should compulsorily be licensed and the licensing authority should be given powers to revoke the licence in case it is satisfied that the operations of a particular unit are unsatisfactory. (Paragraph 17.17)
253	Hire-purchase financiers should be required to indicate clearly the true rate of interest along with the flat rate of finance charges. (Paragraph 17.17)
254	In order to induce smaller units to organise themselves into bigger ones, the permissible equity-debt ratio and liquidity ratio should be so prescribed that they are higher for small units and lower for bigger units. (Paragraph 17.18)
255	Benefit of Credit Guarantee Scheme for small borrowers should be extended to other institutions like non-scheduled commercial banks, urban co-operative banks and hire-purchase finance companies in appropriate cases. (Paragraph 17.18)
256	The scheme of classification of NBFIs into 'approved' and 'non-approved' should be applied to hire-purchase finance institutions. (Paragraph 17.18)
257	Commercial banks may enter hire-purchase credit business by having special departments or by setting up subsidiaries. (Paragraph 17.19)
258	It would be desirable for leading banks to form a few hire-purchase finance companies in participation and acting together particularly in the Eastern region where this form of credit is not institutionalised This will require amendment of Section 19 of Banking Regulation Act so that banks will be enabled to promote subsidiary hire-purchase companies. [See also Recommendation No. 333] (Paragraph 17.19)

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259	Small local commercial banks and urban co-operatives should take more interest in hire-purchase credit as their structure and intimate knowledge of local conditions make them specially suited for this form of credit. (Paragraph 17.19)
260	In the immediate future there may not be scope for setting up new unit trusts and investment companies. They should be encouraged when suitable conditions exist in the capital market. (Paragraph 17.25)
261	The following criteria may be laid down for identifying a genuine investment company : (*a*) it should have an independent management and investment policy ; (*b*) it should have a diversified investment portfolio both in terms of companies and groups of companies ; (*c*) it should have adequate public participation in its share capital and it should ensure listing of its shares on the stock exchange ; (*d*) a major portion of its funds should be invested in shares, stocks and bonds and other securities ; (*e*) it should regularly distribute not less than a specified proportion of its net income to its members. The investment companies which satisfy the above criteria can play useful role in the economy. Hence, Government should consider the question of exempting such companies from inter-corporate tax. (Paragraph 17.26)
262	Although the number of genuine investment companies at present is small and hence no separate machinery is required to regulate them, it would be useful to pass legislation with the object of protecting the interests of members of these companies. The proposed legislation should be modelled on the lines of the Investment Companies Act of U.S.A. and also incorporate provisions forbidding investment companies from doing certain types of business such as dealing in real estate. (Paragraph 17.27)
263	No industrial or trading company should be permitted in any event to hold shares in an investment company. (Paragraph 17.27)
264	To ensure independent management policy, Government should have powers to appoint a nominee on the board of directors of a genuine investment company in appropriate cases. (Paragraph 17.27)
265	An examination of chit fund business from various aspects and the effect of the institutions on the economy such as the safety of funds of chit fund subscribers, shows the need for measures to regulate chit funds. (Paragraph 17.42)

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266	It is essential to have a uniform chit fund legislation applicable to the whole country. Depending upon the Constitutional position, whether chit funds come under the Union List, Concurrent List or the State List, either an All-India Chit Fund Act may be enacted or a model law may be prepared for adoption by all the States. It will be desirable to provide in the legislation that only public limited companies can run chit funds. (Paragraph 17.43)
267	Pending such uniform legislation, as an interim measure, existing State laws regulating chit funds registered within the State should be made applicable to their branches in States having no legislation. (Paragraph 17.43)
268	As a measure towards introducing discipline in the chit business, it will be useful for commercial banks to run chit funds subject to proper safeguards as formulated by the Reserve Bank of India. (Paragraph 17.48)
269	The State Governments may, wherever they think appropriate, consider starting chit funds at strategic places as model foremen with the object of offering effective competition to private chit funds and thus acting as a disciplining factor. (Paragraph 17.49)
270	The ultimate solution to the problem created by chit funds is for commercial banks to provide saving and lending schemes which can take the place of chit funds without the weaknesses and disadvantages associated with chit funds. (Paragraph 17.50)
271	In the interest of the public and of those who participate in Prize Chit Schemes, which are really a form of lottery, the offence under section 294A of the Indian Penal Code should be made a cognisable one. Also the Registrar of Chit Funds should be authorised to take note of any 'Prize Chit' that may be run and may either himself initiate action against those responsible or request the police to do so. (Paragraph 17.44)
272	'Finance Corporations' are para-banking institutions which accept deposits from the public and make loans and advances. It is necessary to regulate their activities on the same lines as in the case of commercial banks. (Paragraph 17.57)
273	For safeguarding the interests of the depositors and to utilise the advantage of local knowledge of the 'finance corporations' for country's benefit :

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	(*a*) no institution of the type may be allowed to work without a licence from the monetary authorities ; (*b*) a ratio may be prescribed between the owned funds of an institution and its deposit liabilities ; (*c*) liquidity ratio may be prescribed for them which may, however, be lower than that in the case of commercial banks ; (*d*) periodical inspections of the 'corporations' may be undertaken on a sample basis by the regulating authority ; (*e*) a ceiling on interest rates on deposits may be prescribed which may, however, be higher than that prescribed for commercial banks ; (*f*) since they are not bodies incorporated under the Indian Companies Act, they should not be allowed to use the word 'corporation' in their names ; and (*g*) 'Finance Corporations', loan companies, finance companies, etc., may be subjected to scheme of classification into 'approved' and 'non-approved'. (Paragraph 17.57)
274	The solution to the problem created by the operations of 'finance corporations' and other similar institutions should ultimately be sought in commercial banks offering effective competition to them in their lending business. (Paragraph 17.58)
275	As nidhis are performing useful functions through their operations in the localities where they operate, their growth should be encouraged. (Paragraph 17.61)
276	To safeguard the depositors' interest and to make these institutions more useful to the economy — (*a*) they may be licensed by the Reserve Bank or such other regulating authority as may be set up for the purpose ; (*b*) a minimum level of liquidity ratio may be fixed which may, however, be lower than that of commercial banks ; (*c*) a minimum amount for paid-up capital and reserves may be prescribed and every nidhi should allocate a certain specified proportion of its profits to reserves ; and (*d*) periodical inspection may be conducted by the regulating authority. (Paragraphs 17.62 and 17.63)
277	While these regulations may be made applicable to all the nidhis, incentives may be offered to those among them which satisfy certain requirements. For this purpose, nidhis may be classified, like other NBFIs, into two categories, *viz.*, 'approved' and 'non-approved'. Besides according the advantages like the availability of refinance, guaranteeing of loans and insurance of deposits to approved nidhis, Government may also consider extending to the depositors of these nidhis the same tax concessions as are available to the depositors of banks. (Paragraph 17.63)

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278	For meaningful analysis of the operations of NBFIs and their regulation, statistics relating to the different aspects of their working should be collected and processed in a systematic manner. (Paragraph 17.65)
279	Pending the Constitutional amendment suggested in Recommendation No. 309, a model legislation should be drafted for adoption by all States to regulate the activities of those indigenous bankers who rely entirely on bank credit as external source of finance for the conduct of their business. (Paragraph 18.82)
280	The best way to control the business of indigenous bankers would be through commercial banks. The Reserve Bank of India should exercise indirect influence over the business of indigenous bankers through the medium of commercial banks by laying down guidelines for their dealings with indigenous bankers. The Reserve Bank of India should review from time to time whether commercial bank financing in respect of multani hundi business is in accordance with the guidelines laid down by it. (Paragraph 18.83)
281	Commercial banks should call for regular returns from indigenous bankers and require them to maintain adequate internal inspection procedures and be subject to regular outside audit. (Paragraph 18.84)
282	The requirements which the indigenous bankers should fulfil in order to be entitled to discounting facilities with commercial banks are : (*a*) such indigenous bankers should not engage themselves in trading activity ; (*b*) an indigenous banker should have Rs. 1 lakh as the minimum owned resources. In turn, there should be a ceiling on the total discounting limits which should be fixed as a multiple, say, 5 times of the owned funds of each indigenous banker ; (*c*) the indigenous banker has to agree to maintain books of account in the usual recognised manner and have them annually audited and certified by a recognised firm of auditors ; (*d*) a summary statement of the volume and nature of business (in the form indicated in Annexure 18.I to Chapter 18) should be furnished annually by each indigenous banker to the Reserve Bank. The Reserve Bank and the commercial banks should review annually the activity of indigenous bankers in order to ensure that the advances granted by them are for socially desirable purposes ; (*e*) as far as possible, indigenous bankers should not be encouraged to borrow from more than one bank ; (*f*) indigenous bankers should preferably be members of an association. (Paragraph 18.85)

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283	At present the volume of hundis discounted by the commercial banks is not so large as to warrant separate refinancing facilities, and the refinancing requirements of commercial banks can easily be met from the facilities that are customarily given to them. The matter could be reconsidered if the volume of this business assumes significant proportion. (Paragraph 18.87)
284	Some understanding should be reached between the commercial banks and the indigenous bankers regarding the level of interest rates that such bankers should charge on advances to their customers. It should be made incumbent on commercial banks to see that no indigenous banker availing himself of bank credit facilities charges interest rates higher than those agreed upon. (Paragraph 18.88)
285	The Reserve Bank should periodically indicate the interest spread considered adequate for this business. Further, where the banks are satisfied that the lending by the indigenous bankers is for priority sectors, they should charge a reasonable discount rate and also ensure that the indigenous bankers pass on the benefit to the borrowers. (Paragraph 18.89)
286	There is a good case for commercial banks re-examining the policy of charging the high rates on advances to multanis, from various aspects such as liquidity, cost and end-use of such credit and reconsidering whether there is a case for reducing the discount rate even though such advances are classified as unsecured. Further, commercial banks should make every effort to verify on a random basis the rates charged by the indigenous bankers to the ultimate borrowers. (Paragraph 18.89)
287	A code of conduct should be formulated for the operations of indigenous bankers. Such bankers as are found to be indulging in malpractices should not be allowed any further bank accommodation. (Paragraph 18.89)
288	It should be made mandatory for the indigenous banker to disclose the terms of loan transactions to the customer fully. Incidental charges such as brokerage and charity which vary from region to region should be standardised. In addition to indicating the amount of the loan and the interest, the indigenous banker should be required to express the interest and other charges, if any, in terms of the effective rate per cent per annum. The legislation referred to in Recommendation No. 279 should impose penalties for charges in excess of the standardised ones or for failure to disclose the full terms to the customers

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	and in cases of flagrant violation, the authorities should have the power to suspend the licences of indigenous bankers. (Paragraph 18.90)
289	A systematic evaluation of the financial statements of indigenous bankers should be undertaken by commercial banks. (Paragraph 18.91)
290	Also commercial banks should satisfy themselves at least on a random basis that the credit has been used for the purpose for which it was given. (Paragraph 18.92)
291	Once the present approach of commercial banks to credit analysis of indigenous hundi business is replaced by systematic credit analysis, the flow of assistance from commercial banks to the indigenous bankers should be steady and uninterrupted. (Paragraph 18.93)
292	Multani bills need not be accorded the status of liquid assets under Section 24 of the Banking Regulation Act. (Paragraph 18.94)
293	It may be desirable to gradually raise the maximum value of multani hundi from Rs. 5,000 to Rs. 10,000 and in the case of creditworthy borrowers upto Rs. 25,000 to facilitate increasing amounts of indigenous banking funds being channelled to meet the working capital requirements of small scale industries. (Paragraph 18.95)
294	It is necessary to codify the practices and usages applicable to hundis and bring such indigenous negotiable instruments within the framework of the codified law. Standard forms of Darshani (Sight) and Muddati (Usance) types of hundis should also be drawn up. (Paragraph 18.96)
295	Payments by Darshani Hundi may be recognised as an eligible mode of payment under Section 40A(3) of the Income Tax Act. (Paragraph 18.97)
296	With their banking acumen and traditional skills the more efficient of the indigenous bankers could transform themselves into discount and acceptance houses provided they adopt to the corporate form of organisation. (Paragraph 18.100)
297	The definition of 'banking' should cover acceptance of all forms of deposits, independent of their mode of withdrawal. (Paragraph 19.11)

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298 The purpose for which deposits are accepted by a person from the public should not be relevant for the definition of 'banking', though it is relevant while considering the scheme of banking regulation. (Paragraph 19.17)

299 The expression "from the public" should be clarified as covering also the acceptance of deposits by a body from its member or shareholders. (Paragraph 19.19)

300 The expression 'deposit' should be defined as including also borrowings by way of loans, but excluding :—

(*i*) borrowings by companies or other corporate bodies by way of debentures ; and

(*ii*) borrowings from Governments, banks, financial institutions established by statute, and any other financial institution that may be notified by the Central Government. (Paragraph 19.22)

301 'Banking' should be defined as the acceptance of deposits of money from the public. purther, 'deposit' for the purpose of this definition should be statutorily clarified to include borrowings by way of loans, but it should exclude :

(*a*) borrowings by companies or other corporate bodies by way of debentures, and

(*b*) borrowings from Governments, banks, financial institutions established by statute, and any other financial institution that may be notified by the Central Government. The expression "from the public" should also be statutorily clarified to include also acceptance of deposits by a body from its members or shareholders. Such a definition of 'banking' should not affect or cover :—

(*i*) casual or stray transactions of borrowings as they are not to be regarded as "acceptance of deposits of money from the public",

(*ii*) payments by persons who are, or who may be under an obligation to the person accepting the payment, such as security deposits, or advance payments intended for adjustment towards supply of goods or services by the person receiving such payments,

(*iii*) indebtedness arising on account of particular relationships, such as principal and agent, doctor and patient, etc.,

(*iv*) every indebtedness, but only a debt created as a loan or deposit. (Paragraphs 19.23 and 19.24)

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302	Undertakings which do 'banking' can be broadly classified, on the basis of the forms of banking they do, into those : (*i*) accepting chequeable deposits ; (*ii*) accepting non-chequeable deposits for the purpose of lending or investment ; and (*iii*) accepting non-chequeable deposits for financing their own business such as manufacture or trade. For the purpose of regulation, concerns doing (*i*) above may be termed as 'banks', those doing (*ii*) above as 'financing institutions' and those engaged in (*iii*) above as 'deposit receiving institutions' (See Chart 19.I). The scheme of the regulation that should apply to these categories of banking undertakings should take note of the differences in the legal status and the objectives of the concerns. (Paragraph 19.26)
303	Private limited companies accepting 'non-chequeable deposits' from their shareholders, companies taking such deposits from their directors and firms accepting such deposits from their partners need not be brought within the scope of the banking regulation connected with the acceptance of such deposits. (Paragraph 19.27)
304	The reference to 'cheque' in section 49A of the Banking Regulation Act, 1949, should be substituted by the expression "cheque or other negotiable instrument payable on demand". The expressions 'deposit' and "from the public" should also be given, for the purpose of this section, the meaning given to them in the definition of 'banking'. (Paragraph 19.30)
305	It is only those concerns that are authorised to accept chequeable deposits which should be allowed to accept demand and near demand deposits from the public. (Paragraph 19.31)
306	It is only institutions which are authorised to carry on *all* forms of banking, that is, the acceptance of all kinds of deposits *including* chequeable deposits, that should be required and permitted to use as part of their business names the expression 'bank', 'banker' or 'banking', and others, including other undertakings carrying on other kinds of 'banking', should be precluded from using such terms as part of their business names. (Paragraph 19.33)
307	For the effective implementation of the regulation of the business of accepting chequeable deposits, the carrying on of such business should

115. Shri A. Krishna Kutty Menon, Secretary, Malabar Co-operative Central Bank Ltd., Kozhikode.
116. Shri N. S. Krishna Pillai, Alleppey District Co-operative Bank Ltd., Alleppey.
117. Shri K. Gopalkrishnan, Manager, Alleppey District Co-operative Bank Ltd., Alleppey.
118. Shri E. Chandrasekaran Nair, Quilon District Co-operative Bank Ltd., Quilon.
119. Shri G. Balakrishnan Nair, Manager, Quilon District Co-operative Bank Ltd., Quilon.

Industrial, Commercial and Other Bodies

120. Shri Joseph George, Member, Travancore Chamber of Commerce, Allepey.
121. Shri K. Balahariharan, Secretary, Travancore Chamber of Commerce, Alleppey.
122. Shri K. Narayana Menon, Vice-President, Indian Chamber of Commerce, Cochin.
123. Shri A. C. Raghava Menon, Member, Executive Committee, Indian Chamber of Commerce, Cochin.
124. Shri V. K. Raja, Secretary, Indian Chamber of Commerce, Cochin.
125. Shri V. Mathen, President, Kerala State Small Industrialists' Association, Cochin.
126. Shri T. G. Krishnan, Secretary, Kerala State Small Industrialists' Association, Cochin.
127. Shri A. K. Bhaskar, Quilon District Small Industries Association, Quilon.
128. Shri George Isaac, Kottayam District Small Industries Association, Kottayam.
129. Shri K. R. Mehta, President, Federation of Chambers of Trade & Industry, Ernakulam.
130. Shri C. C. Joseph, Secretary, Federation of Chambers of Trade & Industry, Ernakulam.
131. Shri P. A. Kurian, Dharmodayam Chit Funds, Trichur.
132. Shri K. T. Paul, Kshemavilasam Company, Trichur.
133. Shri K. A. Thomas, Damien Subsidies Co., Trichur.
134. Shri Joseph, Oriental Kuries, Trichur.
135. Shri K. V. Thomas, Managing Director, Kerala Financial Enterprises.
136. Shri M. Sivadas Menon, Inspector General of Registration, Trivandrum.
137. Dr. Henry Austin, President, Indian Trawlers Association, Ernakulam.
138. Shri R. Hemachandran Nair, Member, Indian Trawlers Association, Ernakulam.
139. Shri G. S. Pai, Member, Indian Trawlers Association, Ernakulam.
140. Shri A. T. Bery, Member, Indian Trawlers Association, Ernakulam.
141. Shri G. N. Panikkar, Publicity Officer, Marine Products Export Promotion Council, Ernakulam.
142. Shri Joseph, Secretary, Rubber Board, Kottayam.
143. Shri S. Rajasekara Pillai, Accountant, Rubber Board, Kottayam.
144. Shri K. T. Ravi Varma, Secretary, Cashew Export Promotion Council, Cochin-16.
145. Shri M. Balaraman Nair, Secretary, Spices Export Promotion Council, Ernakulam.

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310 The scheme of rural banks envisages provisions to facilitate the conversion of good primary credit societies at the primary level into rural banks which may continue to be in the co-operative structure and may be called 'rural co-operative banks'. It also visualises the setting up of new banking undertakings, in rural areas, as subsidiaries of commercial banks called 'rural subsidiary banks'. To ensure unified policy regarding their development and a meaningful comparison of their performance and effectiveness, these banks should come (except for the differences inherent in the organisational pattern relating to their set-up) under one set of common regulations relating to authorised business and other matters as specified later. Moreover, in its application to rural banks, banking regulation should be appropriately modified. This requires enabling and supporting legislation both of the Centre and of the States; Central legislation would suffice on the implementation of our recommendation to confer on the Union the power to legislate on matters relating to the incorporation, regulation and winding up of co-operative credit societies. The legislative provisions relating to rural banks may have to comprise those necessary :

(*a*) to facilitate the selection of good primary credit societies as rural banks ;

(*b*) to enable the setting up of fresh units as subsidiaries of commercial banks and other incidental matters ;

(*c*) to provide for conversion of category (*a*) into (*b*) and *vice versa* ;

(*d*) to ensure that rural banks (of both categories) function effectively; and

(*e*) other matters that require attention in relation to the above.

While the Union can provide for most of the matters specified above, there may have to be complementary State legislation in certain matters, especially (*c*) above. In certain matters, such as the concessions in relation to payment of stamp duty, registration charges, etc., to be made available to 'rural subsidiary banks', and in certain other respects, it may be necessary for the States to make appropriate provisions. The matters which the Union could provide for should become a part of banking legislation. The necessary changes to the Co-operative Laws may be effected by the States by passing appropriate legislation. (Paragraphs 19.53 and 19.54)

311 Rural banks should be set up in a manner that would provide for them the benefits that accrue to co-operatives, while avoiding their drawbacks. This implies that a separate statutory framework should be provided for the formation of 'rural subsidiary banks'. (Paragraph 19.59)

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312	A rural bank may be defined as a notified co-operative bank, or a licensed subsidiary bank of a commercial bank, functioning or set up in a rural area for the purpose of providing banking and credit facilities in that area. The definition of 'rural area' should be on the basis of well-accepted criteria, such as, the Census classification. Where the area in which a rural bank has been set up is subsequently considered as non-rural, this should not *per se* affect the powers, functions and provisions applicable to such rural banks. The actual area of operation may be specified by the Reserve Bank taking into account the local conditions. The determination of the areas where rural banks are to be set up, and whether any primary credit society, existing or proposed, should be notified as a 'rural bank' in any area or a commercial bank should start a subsidiary (and if so, the particular commercial bank which should be given this responsibility) may be left to the assessment of the Reserve Bank. The Reserve Bank may from time to time set out the principles it follows for such determination. (Paragraphs 19.64, 19.65 and 19.71)
313	The 'rural subsidiary banks' should be registered by the Reserve Bank rather than by the Registrar of Companies. The functions which the Registrar of Companies at present performs as regards companies could be entrusted to the Reserve Bank as regards 'rural subsidiary banks'. For this purpose, the Reserve Bank may have to open a branch or branches in each State which could *inter alia* act as the registering authority for such rural banks. (Paragraph 19.68)
314	Where a promoting commercial bank decides to sever its links with the 'rural subsidiary bank', then another commercial bank could take the place, and perform the functions, of the promoting bank. It should also be possible, in appropriate cases, for a 'rural subsidiary bank' to become a 'rural co-operative bank'. The Reserve Bank may also initiate action for the substitution of a promoting bank, or for conversion of a 'rural subsidiary bank' into a 'rural co-operative bank' *suo motu* when it considers that such action is necessary in the interest of banking development. (Paragraph 19.69)
315	It is necessary that a simple procedure is evolved for expeditiously dealing with the applications for licences from 'rural subsidiary banks' and that as far as possible the licences are not refused except on substantial grounds. (Paragraph 19.70)
316	It is necessary that the Reserve Bank should draw certain minimum and objective criteria that the primary credit societies should be required to fulfil. If, on a *prima facie* assessment, the Reserve Bank is of the

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	view that these criteria are fulfilled, then the Bank should notify the primary credit societies fulfilling such criteria as 'rural co-operative banks'. If, at any time, the Reserve Bank is of the view that the affairs of any such 'rural co-operative bank' are not being conducted on healthy and sound lines, then it should be in order for the Reserve Bank to de-notify it from the list of 'rural co-operative banks' and to ask any commercial bank to start a 'rural subsidiary bank' in the area earlier served by a 'rural co-operative bank'. (Paragraph 19.71)
317	It is desirable to provide for primary co-operative credit societies, which wish to do so, to merge with the 'rural subsidiary banks'. The provisions that could be thought of may be somewhat on the lines of section 44A of the Banking Regulation Act, 1949, and the Reserve Bank should be given the necessary powers to sanction the schemes of amalgamation. (Paragraph 19.72)
318	Where a primary credit society which fulfils the eligibility standards of the Reserve Bank to be classified as 'rural co-operative bank' wishes to come under the umbrella of a commercial bank, subject to the fulfilment of conditions, such rural banks should be removed from the Register of Co-operative Societies maintained by the Registrar of Co-operative Societies and should be included in the Register of Rural Subsidiary Banks maintained by the Reserve Bank. It would be necessary to have complementary State legislation to effectuate this. (Paragraph 19.73)
319	The minimum paid-up capital of a 'rural co-operative bank' or a 'rural subsidiary bank' should be Rs. 50,000 and consequentially the minimum authorised capital Rs. 1 lakh. The existing restriction of transferability of shares in co-operative societies only to *bona fide* residents of their areas of operation should apply also to shares of 'rural co-operative banks' and of 'rural subsidiary banks'. (Paragraphs 8.51, 19.74 and 19.75)
320	The commercial banks should deal with and hold the shares in the 'rural subsidiary banks' in the manner specified in Recommendation No. 29. (Paragraphs 19.75 and 8.45)
321	The principle of limitation on the exercise of voting rights by individual shareholders (excepting the commercial bank promoting a 'rural subsidiary bank') should apply to all rural banks. (Paragraph 19.77)
322	The Reserve Bank of India Act, 1934, may be suitably amended to enable that Bank to advance from out of the National Agricultural Credit (Long Term Operations) Fund loans also to any commercial bank for

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	enabling it to subscribe to the share capital of a 'rural subsidiary bank' which it is promoting. If any primary agricultural credit society, for whose share capital a State Government has subscribed, decides to merge or otherwise amalgamate with a 'rural subsidiary bank' set up in the area, the share capital held by the State Government could be transferred to the promoting bank. There should be necessary provisions for this. (Paragraphs 19.79 and 19.80)
323	A rural bank should be required to give only prior intimation to the Reserve Bank of the places where it would be carrying on business within the area of its operation ; it should not be required to apply for and obtain from the Reserve Bank a licence for each such place. Where a rural bank desires alteration in the area specified for its operation the question of approving such alteration should be left to be determined by the Reserve Bank. The powers to be exercised on behalf of the Reserve Bank in this regard should be delegated to the authorities of the Bank at the branch level. (Paragraphs 19.82 and 19.83)
324	It should be statutorily provided that the Reserve Bank, in granting refinance to a rural bank, may do so through the promoting bank in the case of a 'rural subsidiary bank', and through the concerned district/State co-operative bank in the case of a 'rural co-operative bank'. (Paragraph 19.86)
325	In States where the deposit insurance has been extended to cover deposits with co-operative banks, that insurance should also cover deposits with the 'rural co-operative banks'. The Deposit Insurance Corporation Act should be suitably amended to extend insurance to cover deposits with 'rural subsidiary banks'. (Paragraph 19.87)
326	The legislation relating to 'rural subsidiary banks' should provide for an expeditious and inexpensive procedure for the winding up of a 'rural subsidiary bank' when circumstances so warrant. (Paragraph 19.89)
327	The fiscal concession, which would be available to 'rural co-operative banks', should be enlarged to cover also income arising on account of banking and credit transactions of 'rural co-operative banks' with non-members. The concession should also be allowed to 'rural subsidiary banks' in regard to their liability to pay tax on their income. The tax concessions available to dividends on the units of the Unit Trust of India should also be available in respect of dividends on the shares held in rural banks. (Paragraph 19.90)

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328	The exemptions from payment of stamp duty and registration charges would be available to 'rural co-operative banks' ; State Governments may consider the granting of similar exemptions in respect of transactions with 'rural subsidiary banks'. The provisions which facilitate the creation of charges on borrowers' assets and the giving of priority for the claims of the banks over such assets would now be available only to 'rural co-operative banks' ; State Governments may consider the making of appropriate provisions which would provide such facilities also to 'rural subsidiary banks'. The Co-operative Societies Acts have special provisions which provide for a simple procedure for reconciling the claims of co-operatives and their members *inter se* ; the Acts also provide for expeditious recovery of loans and advances granted by co-operative societies. These provisions would enure to the benefit of 'rural co-operative banks'. The question of making similar provisions which would be applicable to 'rural subsidiary banks' should be examined. (Paragraphs 19.91 and 19.92)
329	With reference to 'rural subsidiary banks', the District Court may be specified as the court having jurisdiction to decide disputes concerning such rural banks unless provisions similar to those applicable to Co-operative Societies are made. (Paragraph 19.93)
330	In the revised scheme of banking regulation now recommended there is no need for the present distinction between scheduled and non-scheduled banks. (Paragraphs 19.95 and 10.59)
331	The position of banking companies which have applied for a licence on or before September 16, 1949, and, pending a decision on their application, are carrying on banking business so far, is anomalous. An expeditious decision on the applications of such banks, which have been pending for over two decades, would remove this anomaly. (Paragraph 19.96)
332	In the conditions prevailing in our country, it is necessary that banks should be allowed to undertake the business of buying machinery and other equipment and leasing them. There should also be a statutory provision providing that banks could undertake any form of business which the Reserve Bank may notify with the prior approval of the Central Government. For this, the Reserve Bank may undertake reviews from time to time. (Paragraphs 19.97 and 19.98)
333	Section 19 of the Banking Regulation Act, 1949, may be amended to provide that banks may form subsidiaries for : (*a*) carrying on business which banks are permitted to do under section 6 of the Banking Regulation Act, 1949 ; and

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(*b*) any purpose considered by the Reserve Bank in consultation with the Central Government as conducive to the spread of banking or otherwise useful or necessary to be undertaken by banks in public interest.

There should also be a statutory clarification that in the aforesaid circumstances the national banks are allowed to form subsidiaries. (Paragraph 19.100)

334 On the model of the proviso to section 42(1) of the Reserve Bank of India Act, 1934, a proviso should be added to the sections providing for the maintenance of other liquid assets, specifying a range within which the requirements as to other liquid assets may be varied. The Central Government in consultation with the Reserve Bank may decide on the particular range within which the Reserve Bank may be enabled to raise or revise the requirements as to maintenance of liquid assets. (Paragraph 19.104)

335 The provisions relating to the balance sheet and profit and loss account of banks may be modified to ensure full disclosure by banks of all their assets and liabilities. Consequentially, section 34A of the Banking Regulation Act, 1949, may have to be repealed. Having regard to the purpose for which secret reserves are maintained, such reserves of banks, existing on the date on which the provisions providing for full disclosure become effective, should be required to be transferred to the banks' general reserves. In order to ensure that profits that would have gone to reserves are not utilised to meet other needs, there should also be a provision requiring banks to transfer to their general reserves (which are to be disclosed) a larger percentage (than the present 20 per cent) of their net profits. The exact percentage to be specified may be laid down by the Central Government in consultation with the Reserve Bank. (Paragraph 19.109)

336 Acceptance of deposits (non-chequeable) by loan companies, investment companies and hire-purchase finance companies really comes within the sweep of the regulation as set out in the Banking Regulation Act, 1949, having regard to the definition of 'banking' given in that Act and the objectives of banking regulation. There is no reason to deal with such financing institutions accepting non-chequeable deposits from the public as non-banking companies. (Paragraph 19.112)

337 Concerns accepting non-chequeable deposits for the purpose of lending or investment, that is, financing institutions, should really be regulated as part of scheme of banking legislation. However, there may have

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to be appropriate differences in the nature of the regulation to which concerns taking chequeable deposits and concerns accepting non-chequeable deposits for lending or investment, *i.e.*, banks and financing institutions, are subjected. Nidhis, Bangalore type financing 'corporations', Hire-Purchase Companies and Investment Companies should be brought within the framework of the banking regulation. Housing finance institutions which accept non-chequeable deposits from the public for mobilising the necessary resources may also come under the scheme of banking regulation. The scheme of regulation that should apply to financing institutions may be as described in Chapter 17. (Paragraphs 19.113 and 19.114)

338 The distinction between a person doing banking and a person doing moneylending really rests on the presence or absence, as part of such person's business, of the acceptance of deposits from the public. As the definition of 'banking', since 1936, has essentially centred around the deposit-taking function, to distinguish banking from moneylending we have per force to rely on the question whether or not the person accepts deposits from the public. (Paragraph 19.116)

339 There is no legal impediment and the Union should legislate to regulate private banking. (Paragraph 19.120)

340 While incorporation of private banking undertakings is highly desirable, this need not be enforced by compulsion. Alternatively, there could be appropriate differentiation between corporate bodies and firms and individuals carrying on private banking. In particular, in prescribing the conditions to qualify as eligible concerns for any concession or inducement, incorporation could be made one of the conditions. Subject to the above, all the provisions that apply to corporate financial institutions should also apply to firms and individuals doing private banking, with necessary modifications for the difference in their legal status. A private banker should be required to obtain a certificate of authorisation and to satisfy certain specified conditions. There should also be special provisions for facilitating either the conversion of private banking undertakings into corporate institutions, or their dissolution. (Paragraphs 19.121 and 19.122)

341 The objectives of the regulation would be met in the case of deposit receiving institutions if the regulation deals with the terms (including the terms relating to the period of repayment, payment of interest, etc.) subject to which deposits could be accepted, and contains necessary provisions to ensure that the borrowing concerns have adequate repaying capacity. Having regard to public interest, the provisions

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	may also enable authorities to restrict, regulate or prohibit the acceptance of deposits. The regulating authorities should also be given the necessary powers to enforce the observance of the regulations by the deposit receiving institutions by inspection and other measures. But the licensing of such institutions should not be necessary for the purpose of banking regulation. (Paragraph 19.123)
342	The administration of banking regulation over financing institutions and deposit receiving institutions may be left to an independent agency which should be closely associated with the Reserve Bank. This agency would comprise separate licensing/regulating authorities at the State level with an apex body at the all-India level. The apex body would be concerned with questions of policy and matters of all-India importance while State level bodies could deal with administration of the regulatory/licensing provisions. As an alternative to such machinery the Reserve Bank itself may be vested with such responsibility which it could discharge, if necessary, departmentally and by opening its branches in all the States. (Paragraph 19.125)
343	It is desirable that the regulation of the different banking undertakings is considered as parts of one comprehensive scheme. That would ensure that there is a proper perspective over the control that is exercised in regard to the different categories of banking institutions having regard to certain common objectives, such as, the protection of the interests of the depositors, the safeguarding of public interest and the effective implementation of the monetary policy and credit policy. For this, there should be a comprehensive banking code. We recommend a comprehensive banking code suited to the conditions of India and covering all types of deposit-taking institutions. The banking code can appropriately differentiate between the different categories of persons doing one or the other form of banking. The statutory provisions applicable to the national banks could become a part, or parts, of the banking code (see Recommendation No. 372). Chapter III-B of the Reserve Bank of India Act, 1934, may be repealed and the provisions to be made with reference to financing institutions and deposit receiving institutions may be placed as separate parts of the code. The provisions necessary for regulating firms and individuals doing private banking could be made a part of the code. The provisions of the Banking Regulation Act, 1949, in relation to their application to banks could be retained in the code, subject to necessary modifications. The schemes governing the rural banks and the housing finance institutions, could find appropriate places as parts of the banking code. The suggestion for a comprehensive banking code should not, however, delay the promotion of legislation necessary for banking regulation.

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	If necessary, legislation can deal separately with the different categories of banking institutions with the ultimate aim of fitting in all the pieces of legislation for the regulation of banking into one comprehensive banking code. (Paragraphs 19.127 and 19.128)
344	If the national banks are to have a common programme of functions and responsibilities in the development of the banking/credit system of the country, it is necessary that they are governed by a uniform scheme. In evolving such a uniform scheme, such features, as have more a historical rather than any present day value, may be discarded. However, such a uniform scheme may have to be evolved gradually and not brought about suddenly. (Paragraph 20.3)
345	A statutory provision may be made for the capital of any national bank being revised by it in consultation with the Reserve Bank and with the approval of the Central Government. (Paragraph 20.6)
346	When Government reviews the schemes governing the national banks, the question whether or not the outside shareholdings in the capital of the State Bank and the Subsidiaries should continue may be taken up and decided. Until then, the placing of the annual accounts and of the report on the working of the State Bank and the Subsidiaries may continue to be made before their general bodies. (Paragraph 20.11)
347	The provision, which requires the boards of the State Bank and the Subsidiaries to act "on business principles, regard being had to public interest", should also apply to the 'new banks', as all the national banks should have the same objectives. (Paragraph 20.13)
348	The provisions regarding the persons who should head the boards of directors of the national banks and those regarding the persons who should be entrusted with powers to act as their chief executives should be uniform in pattern for all the national banks. (Paragraph 20.14)
349	In the national banks there should be a whole-time Chairman and a whole-time chief executive. In no case the two offices should be combined. Of the two whole-time directors, provided by the Scheme for the 'new banks', one should be made whole-time Chairman and the other whole-time chief executive. The Chairmen and the chief executives of all the national banks should be vested with the same or similar powers. Provisions should be made on uniform lines in the statutes governing the national banks for the appointment of chief executives and for the determination of the remuneration payable to them. (Paragraphs 20.16 and 20.27)

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350	The question of extending representation on the Boards of the State Bank and the Subsidiaries to men engaged in specified occupations, namely, farmers, workers, artisans, as also the depositors and the employees of banks could also be considered, when a uniform scheme is evolved for all the national banks. (Paragraph 20.18)
351	In the appointment of the representative(s) of the Central Government, the choice of that Government need not be restricted only to its officials. (Paragraph 20.20)
352	The number of whole-time directors necessary for the State Bank and the 'new banks', as at present provided for, seems to be adequate; however, Government may review the situation from time to time in consultation with the Reserve Bank and provide for any changes that may be considered necessary. In the Subsidiaries, the General Manager should be made a member of the board and designated as Managing Director. (Paragraph 20.22)
353	In our view, even in the State Bank there does not seem to be much necessity for a Vice-Chairman. But if a Vice-Chairman is at all to be appointed, he should be a professional banker. (Paragraph 20.23)
354	The reference to election in the 'new banks' Act for the selection of the representatives of farmers, workers, artisans and depositors may be deleted. However, it should be statutorily provided that the representatives of employees should be chosen always through secret ballot. (Paragraph 20.24)
355	The principle underlying section 10A of the Banking Regulation Act, 1949, has validity for all the banks and it is necessary to make provisions on similar lines with reference to the national banks as well. (Paragraph 20.25)
356	(*i*) Provision should be made in the statute of the 'new banks' itself for the setting up of a managing committee and the entrustment of powers to it ; (*ii*) Following the pattern of the State Bank and the Subsidiaries, it should be provided that any director (including the whole-time director) of a national bank, though he is not named a member of the managing committee, may participate in the meetings of the managing committee as a member if he is able to attend its meetings ; and (*iii*) Provision should be made for the setting up of other committees, and for the power to associate outsiders with such committees, in the enactments of the national banks. (Paragraph 20.26)

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357	In the case of national banks having 300 or more branches, deputy chief executives should be appointed, and to enable this, necessary provisions should be made in the enactments governing the national banks on the lines of the provisions found in the State Bank Act. (Paragraph 20.28)
358	(*i*) Provision should be made to enable the constitution, for the 'new banks', of regional boards with statutory powers and responsibilities as in the case of the State Bank. These regional boards may cover the branches under the control of one or more zones. (*ii*) In the matter of the composition of the regional boards for the 'new banks', it is necessary to make provision, on the lines of Section 10A of the Banking Regulation Act, 1949, for including also at the local level persons with special knowledge or experience. (*iii*) In the case of the 'new banks' provision should also be made for constituting committees of local boards having regard to relevant factors, such as their size, area of operation, etc. (*iv*) The State Bank Act empowers its Central Board to constitute local committees for any area to exercise such powers and perform such functions as the Central Board may confer on, or assign to, such committees. Such enabling provisions should also be made with reference to the 'new banks'. (*v*) Appropriate statutory provisions should be made for the 'new banks' having regional chief executives on the pattern of the provisions applicable to the Secretary and Treasurer of the State Bank. (Paragraph 20.29)
359	(*i*) The existing restrictions, arising from sections 33 and 34 of the State Bank Act, in regard to certain types of transactions being undertaken by the State Bank should be removed and that bank should be statutorily empowered to engage in all forms of business which the 'new banks' and the Subsidiaries can undertake. (*ii*) In relation to the transaction of Central Government business, all the national banks should be treated equally. Section 45 of the Reserve Bank of India Act, 1934, may be suitably amended to embody this principle. (*iii*) The mechanism of the Currency Chests enables the State Bank (including the Subsidiaries) to operate with slender cash balances. The 'new banks' should also be given this privilege. (*iv*) Statutory provision should be made that any of the national banks may be entrusted with State Government business.

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	(*v*) Government should modify suitably its administrative instructions issued earlier to enable all the national banks being entrusted with the banking business of Local Bodies and statutory corporations.
	(*vi*) The statutory and other applicable provisions in, or under, other Central and State enactments should be suitably modified so as to provide for the banking business of Trusts and other statutory bodies being given to any of the national banks. (Paragraph 20.30)
360	The justification for the State Bank or any of the other national banks continuing to exercise intermediate central banking functions, such as those specified under the provisions of sections 18 and 24 of the Banking Regulation Act, 1949, and section 42 of the Reserve Bank of India Act, 1934, has to be examined by the monetary authorities. Pending a decision on this basic question, the references to the State Bank in sections 18 and 24 of the Banking Regulation Act, 1949, and section 42 of the Reserve Bank of India Act, 1934, may be substituted by a reference to the 'national banks'. (Paragraph 20.31)
361	As the intention is that the 'new banks' should also be enabled to build up adequate reserves by transferring a portion of their net profits to their general reserves, it may be specifically provided that the transfer by them of the surplus to the Central Government would be only the balance of net profits remaining after such transfer. (Paragraph 20.32)
362	The Integration and Development Fund for the State Bank Group may be discontinued. (Paragraph 20.33)
363	The provisions that specify who should sign the annual accounts of the national banks and the time for their completion and submission should be modified providing for uniformity in all these matters. (Paragraph 20.35)
364	It should be statutorily provided that notwithstanding the statutory form of declaration of secrecy provided for the officials of the national banks, the banks are not precluded from disclosing information relating to their affairs, as distinct from those of their customers. (Paragraph 20.36)
365	The provisions applicable to the national banks in relation to the appointment of their auditors, the carrying out of special audit, the remuneration of auditors, the form of auditors' certificate, and the submission and verification of the auditors' report should be uniform for all the national banks. (Paragraph 20.37)

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366	It is necessary to have provisions similar to those found in the Companies Act, 1956, and the Rules framed thereunder for the audit of branches of the national banks. The formula for granting exemption from audit of the branches of the national banks should ensure that all the branches of a national bank are audited at least once in three years. The selection of branches in a particular year may be left to be determined by the Reserve Bank. The branch auditor should be approved by the statutory auditor for the national bank from out of a panel of auditors maintained by the Central Government. The statutory auditor's right to inspect any branch office and obtain necessary information should not also be affected. (Paragraph 20.38)
367	There should be a statutory provision to the effect that Government's directions to the national banks should be in writing. (Paragraph 20.40)
368	To give effect to the recommendations in Chapter 15, suitable amendments should be made in the enactments governing the national banks. (Paragraph 20.41)
369	The Central Government may be vested with powers to make Rules, in consultation with the Reserve Bank, to give effect to the provisions of the 'new banks' Act. (Paragraph 20.42)
370	(*i*) Section 35 of the State Bank Act and section 38 of the Subsidiaries Act enable these banks to acquire other banking undertakings pursuant to a Scheme framed by the Central Government. Provisions on similar lines should be made for the 'new banks' as well.
	(*ii*) Provisions that should apply to the new corporations that may come into existence by reason of the break-up or amalgamation of any of the 'new banks' should be laid down in the statute itself.
	(*iii*) Generally, the provisions found with reference to the Schemes that could be framed under the Banking Regulation Act, the State Bank Act and the Subsidiaries Act may be taken as the pattern for the provisions to be made for the framing of schemes under the 'new banks' Act. The State Bank and the Subsidiaries Acts, as also the Banking Regulation Act, 1949, contain enabling provisions specifying in detail the matters that can be provided for in the Schemes framed thereunder. Similar provisions should be made in respect of the Schemes framed under the 'new banks' Act.
	(*iv*) There are specific provisions in the enactments governing the State Bank and the Subsidiaries, providing that in the event of the transfer of the services of the staff, pursuant to any Scheme, the em-

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	ployees will have no claim for compensation (like that payable under the Industrial Disputes Act, 1947). It is necessary to make such statutory provisions, with reference to the Schemes framed under the 'new banks' Act. (Paragraph 20.43)
371	The setting up of a statutory body like the Regional Consultative Committees envisaged under the Scheme for the 'new banks' may not be either necessary or desirable. Such consultations and co-ordination of activities may be provided for by administrative arrangements rather than by legislation. In this view, there will be no need for the Regional Consultative Committees envisaged in the Scheme for the 'new banks'. (Paragraph 20.44)
372	The provisions relating to the capital structure, ownership pattern and the management of the State Bank, the Subsidiaries and the 'new banks' may be given as separate sections, and the provisions which could apply in common to all the national banks, *e.g.*, provisions relating to the organisational set-up, forms of authorised business, could be made another section of the part of the Banking Code that would deal with all the national banks. The aim should be to have all the relevant provisions relating to banking legislation placed in the Banking Code. (Paragraph 20.45)
373	The banks' obligation to observe secrecy as regards the affairs of their customers should continue subject, however, to recognised exceptions and qualifications. (Paragraph 21.4)
374	There should be a statutory clarification to the effect that the obligation to observe secrecy as to the affairs of customers is not to affect in any manner the banks furnishing information of a general nature relating to the affairs of their customers without revealing the identity of the individual constituents. (Paragraph 21.5)
375	The qualifications for the bankers' duty to observe secrecy regarding their customers' affairs should be : (*1*) where disclosure is under compulsion by law; (*2*) where there is a duty to the public to disclose; (*3*) where the interests of the bank require disclosure; and (*4*) where the disclosure is made with the express or implied consent of the customer. (Paragraph 21.6)
376	A statutory provision may be made in the Bankers' Books Evidence Act to the effect that during police investigations it should be sufficient

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for a bank to produce before police authorities certified copies of the relevant extracts from its books, unless the production of copies thereof is considered as not adequate by an authority of a rank not lower than a Superintendent of Police. (Paragraph 21.7)

377 A statutory provision may be made in the Bankers' Books Evidence Act specifically clarifying that if the original documents are destroyed by banks, in the regular course of business, and the documents have been micro-filmed before such destruction, the relative positives of the films are admissible as evidence provided they are properly produced and proved in court. (Paragraph 21.8)

378 A separate statutory provision should be made for specifying the minimum period for which the banks should be required to preserve their several records. Such period should be fixed for each type of record, having regard to :

(*i*) the period for which it would be desirable for banks to maintain the records for their own needs;

(*ii*) the period upto which such records could be usefully required in connection with tax or other regulatory proceedings ; and

(*iii*) the practical difficulties the banks may face in preserving their records beyond a reasonable length of time.

The period of preservation of various records may be prescribed from time to time by the Central Government in consultation with the Reserve Bank. The provision should also apply to all co-operative banks other than primary credit societies. (Paragraph 21.10)

379 A statutory provision should be made fixing the period of preservation of paid instruments by banks. When, for valid reasons, customers require the return of the paid instruments before the specified period, they may be returned only after they are micro-filmed. The cost of micro-filming should be borne by the customer. This provision should be applied also to the return of paid instruments drawn by Government Departments and statutory Corporations. (Paragraph 21.13)

380 Banks need not be required to identify parties coming to them for all types of transactions. (Paragraph 21.15)

381 The State Governments may, in terms of State laws, in proper cases, call for information available with banks regarding their customers. While making such provisions, and administering the existing provisions in their laws, State Governments should act in consultation with the Reserve Bank. (Paragraph 21.16)

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382	Questions of law and propriety arise with reference to information available with the foreign branches of Indian banks, when such information is required to be disclosed pursuant to orders served on their controlling offices in India. There should be a statutory provision clarifying this. This question has also to be considered keeping in view other practical considerations, such as the repercussions of such disclosure on the business of the foreign branches of the Indian banks. In such cases, we should have regard to international practice and agreements between countries. (Paragraph 21.17)
383	There should be a statutory provision clarifying that banks should disclose in public interest information relating to the affairs of their customers : (*a*) when a bank is asked for information by a Government official concerning the commission of a crime and the bank has reasonable cause to believe that a crime has been committed and that the information in the bank's possession may lead to the apprehension of the culprit ; (*b*) when the bank considers that the customer is involved in activities prejudicial to the interests of the country; (*c*) where the bank's books reveal that the customer is contravening the provisions of any law ; and (*d*) where sizeable funds are received from foreign countries by a constituent. The statutory provision can also lay down that if and when a bank forms *bona fide* an impression that it owes a duty to the public to disclose, it is relieved of its obligation to maintain secrecy if it discloses the relevant information to the concerned authorities. (Paragraph 21.18)
384	Different periods may be prescribed for the disclosure of the affairs of individual-customers and those of corporate entities ; in relation to the former, information relating to a period anterior to 50 years and in relation to the latter, information relating to a period anterior to 20 years may be furnished by banks for research purposes. (Paragraph 21.19)
385	Government may be empowered by law to declare, from time to time, the names of Commissions/Committees appointed by Government to whom banks are obliged to disclose information relating to the affairs of their customers in public interest. (Paragraph 21.20)

No.	*Recommendation*
386	There should be adequate statutory provisions which would enable banks and financial institutions to exchange freely credit information on the affairs of their customers. (Paragraph 21.24)
387	There should be full, free and frank communication of credit information between the national banks. For this purpose, there should be a special provision in their statutes. (Paragraph 21.25)
388	Since the major banks and financial institutions which are in need of credit information are in the public sector, specialised credit information agency or agencies may have to be set up by legislation. Government may take appropriate measures to set these up as statutory corporations. On the setting up of such agencies, there will no longer be the need for continuing the Credit Information Bureau in the Reserve Bank, and Chapter III-A of the Reserve Bank of India Act, 1934, could thereafter be repealed. [See also Recommendations Nos. 117 and 165 (*ix*)] (Paragraph 21.27)
389	There should be provision requiring banks and other financial institutions to furnish credit information agencies with such information, and in such form, as the agencies may specify in consultation with the Reserve Bank. (Paragraph 21.28)
390	It is necessary to provide for credit reporting agencies adopting reasonable procedures in a manner which is fair and equitable, and for an opportunity being given to the person reported on to ask for correction of any error in the report on him. (Paragraph 21.29)
391	There should be a statutory provision for indemnifying the credit reporting agencies from any action for damages or other losses which may be suffered by any person consequent on the credit information being given on, or for the use of, such person, so long as such agencies exercise their powers and functions *bona fide*. Such protection should also be available to banks while they furnish credit information on their constituents. (Paragraph 21.30)
392	Legislative measures should be taken to provide that financial statements furnished to banks by their borrowers (including prospective borrowers) shall be true and correct and that any wilful breach of this obligation is punishable. (Paragraph 21.31)
393	Statutory provisions should be made: (*i*) on the lines of the provisions found in the banking codes of the States of the United States of America, (*a*) for the repayment

No. *Recommendation*

by banks of deposits held in accounts opened in the names of more than one individual, and (*b*) to facilitate banks' dealing with adverse or conflicting claims to deposits held in bank accounts;

(*ii*) for giving nomination facility in relation to deposits by individuals with banks, the effect of a nomination being provided for on the lines of the provisions contained in the Public Debt Act, 1944, and banks being permitted to make payment to the nominee(s) unless restrained by an order of a competent court;

(*iii*) for an individual borrower availing of credit facilities from a bank nominating a person(s) who could be allowed, in the event of the death of the borrower, to repay the debt and obtain redemption of the assets charged to the bank by the borrower. Such redemption while giving a good discharge to the bank, should not affect the rights and claims of other parties to the assets of the deceased;

(*iv*) for the nominee obtaining release of the charged assets having a prior claim for getting himself reimbursed of the expenditure incurred by him to obtain the release of the charged assets. Such a nomination should not also affect any other rights the bank may have for realising any of its other dues recoverable from the estate of the deceased;

(*v*) in relation to immovable properties mortgaged to banks, for a nominee indicated by the mortgagor having the right, on the death of the mortgagor to redeem the mortgage by repaying the amount due to the bank in respect of such mortgage. Such a provision could also be made by way of an amendment to the Transfer of Property Act. It should also be provided that the rights of the nominee so redeeming the property are subrogated to the rights of the banks *vis-a-vis* other persons who may have claims on the property. Such a nomination should not, however, affect the rights *inter se* of individual parties claiming under the mortgage;

(*vi*) for enabling banks to return the articles kept in safe custody with them to the nominees of the depositors so as to relieve the banks from any obligation in relation to such asset, but not so as to affect the rights *inter se* of the nominee and others claiming under the deceased depositor;

(*vii*) for those renting safety lockers from banks indicating the persons to whom access may be allowed to the lockers on their death,

No. *Recommendation*

or on the death of any one jointly renting the lockers ; before any such access is allowed :

(*a*) the tax authority specified by the Central Government for the particular area should be notified of the date ; and

(*b*) the locker would be opened in the presence of two responsible bank officials, or a responsible bank official and the representative of the tax authority specified by the Central Government, and an inventory taken of the contents of the locker(s) in their presence. (Paragraph 21.32)

394 There should not be a wide disparity in the regulation applicable to the lending function of those doing 'banking' and those doing 'moneylending'. Hence, there should be a review of the laws governing 'moneylending' with a view to eliminating the wide disparity in the regulation that is now present. (Paragraph 21.34)

395 The business of those who carry on the business of dealing in usance hundis but do not accept deposits and rediscount the hundis with banks should be regulated. (Paragraph 21.35)

396 Pending the implementation of our recommendation to vest the Union with the responsibility to regulate 'moneylending', a model legislation should be drafted for the consideration of the States for the regulation of the Multani business, as stated in Recommendation No. 279. (Paragraph 21.36)

397 The following matters require further review:

(*i*) the laws relating to negotiable instruments and negotiable documents and those relating to loans and advances, laws relating to non-banking financial intermediaries and the provisions of the Company Law insofar as they have a bearing on the working of the banking system, in the light of the developments in other countries ; (Paragraphs 21.37 and 21.38)

(*ii*) codification of law relating to bank deposits and collections ; (Paragraph 21.43)

(*iii*) codification of usages and incidents applicable to different types of indigenous negotiable instruments (which should be continued) excluding those which need not be given legal recognition ; (Paragraph 21.46)

(*iv*) codification of the law relating to the negotiation of negotiable documents like debentures, bonds issued by companies, bearer

No.	*Recommendation*

bonds, bearer scrips, bearer debentures, etc., for the payment of money ; (Paragraph 21.47)

(*v*) consideration of the desirability of having separate legislation on the lines of Article 7 of the Uniform Commercial Code of the U.S.A.; (Paragraph 21.48)

(*vi*) (*a*) the facilities available for investigation of title in general, and the ascertainment of encumbrances on land, notice of *lis pendens*, etc., in particular;

(*b*) the system of registration of title deeds ;

(*c*) the question of issuing title deeds which would facilitate the ready ascertainment of the encumbrances on the land ;

(*d*) review of the provisions of the Transfer of Property Act and other relevant laws pertaining to the cost of creation and the enforcement of charges over immovable property;

(*e*) the extending of the special provisions available to co-operative societies to commercial banks lending to agriculture (see also Recommendation Nos. 56 and 122) ;

(*f*) depending on inclusion of earlier point, consideration of legal handicaps faced by co-operative banks in carrying on their business *vis-a-vis* commercial banks carrying on similar business, and legal measures to remove them ;

(*g*) streamlining of the procedures to be adopted while making advances against immovable properties and measures to ensure that such procedures are not cumbersome but are simple and leave scope for commercial flexibility; (Paragraph 21.50)

(*vii*) the legal effect and the reconciliation of the claims of third parties who deal with movable assets with or without notice of the claims of the bank in respect of the goods, the applicability of the reputed ownership clause in the event of the insolvency of the borrower and related questions and the technicalities of the documents that are now taken for evidencing the creation of the various forms of security interest, *e.g.*, pledge, hypothecation charge, floating charge, trust receipt, hire-purchase interest, with a view to safeguarding the interests of the lending institution and reconciling the interests of third parties *vis-a-vis* the lending institution ; (Paragraph 21.51)

(*viii*) the legal status of trust receipts ; (Paragraph 21.52).

No. *Recommendation*

(*ix*) consideration of the Hire Purchase Bill, 1968; (Paragraph 21.53)

(*x*) the law relating to charge on fixtures; (Paragraph 21.55)

(*xi*) the law relating to guarantees and letters of credit ; (Paragraph 21.56)

(*xii*) evolving a legal framework that would help to ensure that credit given even on an unsecured basis is not allowed to fail, including questions, such as the giving of adequate level basis for advances against the security of negative liens or negative pledges ; (Paragraph 21.57)

(*xiii*) the question of making suitable special provisions which would be available to all banks to facilitate the expeditious recovery of the loans, if necessary by enforcing the charge in favour of the banks on the lines of special provisions applicable to co-operative societies, Industrial Finance Corporation of India, State Financial Corporations, etc. ; (Paragraph 21.58)

(*xiv*) consideration of the setting up of an appropriate special machinery for deciding on the disputes between commercial banks and their customers on the analogy of arbitration provisions in the Co-operative Societies Acts, and the question of constituting commercial courts which would deal with the settlement of disputes relating to, and the recovery of, loans and advances granted by banks and financial institutions ; (Paragraph 21.59)

(*xv*) (*a*) review of the provisions of the Company Law insofar as they have a bearing on the working of the banking system. In particular the provisions bringing in a sort of dual control over companies doing 'banking' by the Reserve Bank and the Registrars of Companies have to be reviewed ;

(*b*) consideration of the special requirements that are to be complied with, or to be observed, by reason of banks and banking undertakings dealing with companies, and the effect of such provisions on banking business. (Paragraph 21.61)

398 In the interest of banking development and in public interest, there should be a constant review in India of the laws concerning and affecting banks which fall either within the ambit of the Union List or the State List or the Concurrent List of the 7th Schedule to the Constitution. The review should include the examination of the prevailing laws concerning and affecting banking, of the Union and of the States with a view to bringing them in line with the developments in other countries and having regard to the local conditions.

No.	*Recommendation*
	Such a review would keep the States informed about (*i*) the developments in other countries in regard to such laws ; and (*ii*) assist the different States for promoting legislation. Such review should provide a forum for mutual discussions and periodical reviews of the laws in force in the Union and the different States on the subjects with which bankers and banking are concerned. (Paragraph 21.66)
399	Having regard to the conditions in India and the fact that banking system is expected to fulfil certain social and economic objectives, a special machinery should be set up by the Central Government for a constant review of the laws concerning and affecting banking. It should be presided over by a jurist, and its members should be drawn from the legal profession, from legal experts who have worked or are working with banks, and from experienced bankers and others possessing expert knowledge and experience considered necessary or useful for such review. The Reserve Bank may be asked to give such assistance as may be required by the reviewing body. It should review all the laws concerning and affecting banking and falling within the jurisdiction either of the Union or of the States, and suggest appropriate measures. (Paragraph 21.67)
400	The objectives of banking research and development should include the following : (*i*) to study the manner in which the banking system as a whole functions in the context of the problems of development of the Indian economy ; (*ii*) to study the inter-relationship between the working of the different parts of the banking system and the special features of the contributions made by these parts to economic development ; (*iii*) to discover and devise methods to develop banking habit ; (*iv*) to find ways of improving the quality of bank services ; (*v*) to assist in creating new opportunities for mobilisation of savings and in extending the geographical and functional coverage of banks; (*vi*) to bring about reduction in costs—capital as well as operational costs ; and (*vii*) to study the impact of loan policies of banks on its environment. (Paragraph 22.14)
401	Further work needs to be done in all the fields in which research was sponsored by the Commission (see Appendix IV). (Paragraph 22.15)
402	The history of individual commercial banks may be written so as to throw light on the evolution of Indian commercial banks. (Paragraph 22.15)
403	Recent information of a general nature regarding the operations of banks not involving disclosure of affairs of any individual customers should be made freely available by banks for research. Data useful

No.	*Recommendation*
	for purposes of policy and for information of the public about the functioning of the banking system should be published regularly by the Reserve Bank. (Paragraph 22.18)
404	To avoid waste and duplication of work, the findings of research should be published and widely distributed without delay. Findings of consultancy projects on particular banks should be made available to other banks. (Paragraph 22.19)
405	There is the need for a properly indexed and periodically updated bibliography of articles, books and reports on banking with special reference to India. (Paragraph 22.19)
406	There should be a scheme for reprinting certain studies and reports (like the Report of the Indian Central Banking Enquiry Committee) which are in demand but have gone out of print. (Paragraph 22.19)
407	To bring theory and practice together and improve banking research, reciprocal arrangements for training of staff between financial institutions and between universities and financial institutions can be worked out. (Paragraph 22.21)
408	Large banks can sponsor Chairs in Banking in colleges and universities around the country. Alternatively, the Government and the Reserve Bank can set apart a certain amount from the profits of the national sector banks received by them for such a purpose. (Paragraph 22.27).
409	Research workers for the Reserve Bank sponsored research fellowships may be allowed to do their work at universities and under teachers of their choice, subject, however, to the approval of the Reserve Bank. (Paragraph 22.28)
410	The banks should also consider tie-ups with schools, specially in rural areas, where banking facilities are slowly spreading. (Paragraph 22.29)
411	As part of educational aids, a basic reading list on banking topics should be prepared and suitable text books brought out. (Paragraph 22.30)

R. G. Saraiya
N. Ramanand Rao
Bhabatosh Datta
V. G. Pendharkar

Bombay
January 31, 1972.

CHAIRMAN'S REMARKS ON THE OCCASION OF THE PRESENTATION OF THE REPORT TO THE FINANCE MINISTER

At the outset may I say on behalf of my colleagues and myself how very grateful I am to you, Sir, for agreeing, in the midst of your multifarious duties, to our request to have a meeting with you for the purpose of handing over the Report of the Banking Commission. We are very grateful to the Governor of the Reserve Bank of India, who, in response to our request, has taken the trouble to come to Delhi to be present on this occasion. We are also very much obliged to the Secretary of the Banking Department, Shri A. Baksi, for his presence.

As you will notice, we are one Member short. Dr. Bhabatosh Datta could not be present owing to the sudden demise of his mother on the 1st of this month. He has asked me to convey to you his regrets for his inability to attend.

Before I formally submit the Report to you, Sir, I should like, if you will permit me, to say a few words on how we approached the task entrusted to us and what we have attempted in the Report. As you know, within a few months of the appointment of the Banking Commission, 14 major Indian commercial banks were nationalised and this was the start of, what I might call, a major revolution in Indian banking. I use the word 'revolution' deliberately because nationalisation was not merely a change of ownership of these 14 banks, but it was the beginning of a co-ordinated endeavour to use an important part of the financial mechanism for the country's economic development. Over the last two decades of planning great developments have taken place on what might be called the technology of planning on the real side of the economy. Various instruments of policy such as licensing, controls, State-owned enterprises and so on have been utilised for the purpose. On the financial side, however, apart from the Government budget and the Reserve Bank's monetary and credit policies, an important area of decision-making, namely, decision-making by the commercial banks remained largely unco-ordinated with the decisions of the planning authorities despite the fact that the State Bank of India and its subsidiaries were in the public sector. The calculus of the banks being quite different from that of the planners such lack of co-ordination between the activities of the two gave rise to numerous difficulties. Nationalisation of the 14 major commercial banks together with the State Bank assistance has provided the remedy to this situation ; the banking industry can now work in a co-ordinated fashion with the Government for the country's economic development. This is the underlying idea in our approach to the various matters referred to us under our terms of reference.

Here, I must confess that for some time after the nationalisation there was a certain amount of doubt in the minds of the public as well as in the minds of the Commission as to whether the Government wanted the Com-

mission to look into the problems of the nationalised banks or not. Of course, we proceeded on the assumption that until anything was said to the contrary the nationalised banks were included in our terms of reference, and we were glad to receive your clarification some time later on to that effect.

We all know the tremendous interest that was aroused in the minds of the public by nationalisation. This interest manifested itself in a number of ways. From the point of view of the Commission's work, the most important thing that happened was that for the first time there was an almost continuous discussion in the country of the expectations of the public from the banking industry and of its numerous practical problems. A number of Committees or Study Groups of bankers or bankers and the concerned interests were set up to study many of these problems. Thus there was the Expert Group on State Enactments having a bearing on Commercial Banks Lending to Agriculture under the chairmanship of Shri R. K. Talwar, the Committee on Banks' Credit Schemes with reference to Employment Potential under the chairmanship of Shri V. D. Thakkar, and so on. Some of these Committees have already reported while others are probably in session. The Reserve Bank has already advised the banks on many of the recommendations of these Committees. Similarly, a number of Workshops or Study Groups have been appointed by the National Institute of Bank Management in the last three years or so. I am mentioning all this in order to explain how the Commission's work fits in with the work of these Committees and Study Groups. In a sense, the setting up of these Committees and Study Groups facilitated the Commission's work considerably. The Commission decided to avoid duplication of efforts and to concentrate on areas on which information was not available and on which no Committees or Study Groups were working. We did this by organising five types of Surveys :

(*i*) Surveys of Small Scale Industries and Small Artisans in 21 centres chosen from all over the country ;

(*ii*) A Survey of Depositors' Appraisal of Banking Services and Agent/Manager's Appraisal of Banking Services ;

(*iii*) A Survey of the Opinions of Bank Borrowers in the Large and Medium Scale Industry and Trade including Foreign Trade ;

(*iv*) Surveys of Banking Facilities in the Rural Areas of Selected Districts ; and

(*v*) Surveys of the Views of Commercial and Co-operative Bankers and State Governments on a number of problems of Policy and Procedure.

In addition, the Commission financed three projects by Research Scholars. These were :

(*i*) An Econometric Model of Banking in India ;

(*ii*) Economies of Scale in Banking ; and
(*iii*) Use of Inventory Control Technique for Cash Management in Banks.

The Vaikunth Mehta National Institute of Co-operative Management offered on its own to prepare a number of valuable Studies for us. Similarly, the National Institute of Bank Management helped us in the analysis of some of the replies to our questionnaires.

Another device that we used was to set up Study Groups of experts to examine the various matters arising out of certain terms of reference of the Banking Commission. There were five such Study Groups :

(*i*) The Study Group on Banking Costs ;
(*ii*) The Study Group to Review Legislation Affecting Banking ;
(*iii*) The Study Group on Indigenous Bankers ;
(*iv*) The Study Group on Bank Procedures ; and
(*v*) The Study Group on Non-Banking Financial Intermediaries.

The Surveys, research projects and the Study Groups have collected a considerable amount of useful material and brought to light a number of interesting facts about Indian banking. The main facts and conclusions from out of this material have been given in our Report. There is still a lot more in this material which, if developed further, will be of considerable benefit to Indian Banking.

Our terms of reference required us to examine not just the various aspects of the commercial banking system but the whole field of financial intermediaries. We have attempted to do this from the point of view of developing a well integrated structure of banks and other financial intermediaries for the country as a whole. In the course of our discussions with the representative organisations and experts we received a number of suggestions as to how this might be done. Having considered all these suggestions carefully, the Commission came to the conclusion that in such a vast country as ours with its diversity of conditions from one part to another no uniform solution would work satisfactorily. In some cases what is required is only certain modifications. However, in other cases, we have felt that entirely radical measures are necessary. Where only modifications were required, we have stated the main considerations which should govern the modifications and the lines along which these may be made. Where we felt that the malady was too deep seated we have recommended radical measures.

It is of course possible that many of the recommendations made by us have already been made by other experts. This is only to be expected. To the extent that this has happened perhaps these recommendations can be

implemented without much delay. However, in a longer perspective, the full effects of the banking transformation will not be realised unless the recommendations of a long-term nature are also implemented even if the implementation takes some time. It is only when the country has a properly integrated structure of financial institutions in the short and long-term field that the financial mechanism will be able to assist effectively in the country's economic development.

The work entrusted to the Commission covered a very vast but very fascinating field. There are many areas in it which we should have liked to study in much greater depth than we have been able to. (In fact some of the project reports were received in a final form in the course of the last three months or so.) From the point of view of a proper development of this field there is great need for a sustained and systematic effort to study the working of the country's financial mechanism. Of course, as far as the data are concerned, thanks to the efforts of the Reserve Bank, a vast amount of material has become available on the Indian banking and monetary system. If I may say so, the material that we get from the Reserve Bank compares very favourably with some of the best in the world. But for reasons that one need not go into at this stage, it seems that in our Universities the study of Indian banking and other financial institutions remains somewhat out of touch with the realities of the situation. We hope that the work that the Commission has been able to do will arouse sufficient interest on the part of both bankers and academicians so that proper development of the subject can take place.

Before concluding I would like to add that the Commission worked as a team, and I am happy we are able to present a unanimous Report. It does not mean that the conclusions were arrived at without discussion ; some of the discussions were quite hot, but each one tried to look at the point of view of the other members and ultimately decisions were arrived at. I am grateful to my colleagues for the utmost courtesy and consideration shown to me.

Finally, I should like to thank the Government for giving us this opportunity of serving the country and for the confidence reposed in us. I must also express the gratitude of the Commission to the Department of Banking of the Government of India, the Reserve Bank of India as well as the State Bank of India for the assistance we received at every stage of our work.

I have great pleasure in submitting to you the Report of the Banking Commission.

NEW DELHI,
February 9, 1972.

R. G. SARAIYA
Chairman

APPENDIX I

RESOLUTION OF THE GOVERNMENT CONSTITUTING THE BANKING COMMISSION

No. F.4(70)-BC/68
Government of India
Ministry of Finance
Department of Economic Affairs

New Delhi, the 3rd February, 1969

RESOLUTION

In pursuance of the policy statement on social control over commercial banks made in the Parliament on the 14th December 1967, it has been decided to set up a Banking Commission consisting of the following persons :

(1)	Shri R. G. Saraiya	*Chairman*
(2)	Shri N. Ramanand Rao	*Member*
(3)	Shri Bhabatosh Datta	*Member*
(4)	Shri V. G. Pendharkar	*Member-Secretary*

One or two members may be added later, if considered necessary.

2. The terms of reference of the Banking Commission will be as follows:

(*i*) To enquire into the existing structure of the commercial banking system having particular regard to size, dispersion and area of operation and to make recommendations for improving the structure ;

(*ii*) To make recommendations for extending the geographical and functional coverage of the commercial banking system ;

(*iii*) To make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks ;

(*iv*) To examine the cost and capital structure and to review the adequacy of available surplus and reserves, having regard to the developmental needs of the banking system and to make recommendations in the light of the findings ;

(*v*) To review the existing arrangements relating to recruitment, training and other relevant matters connected with manpower planning of bank per-

sonnel and to make recommendations for building up requisite professional cadre of bank personnel at all levels of management ;

(*vi*) To review the working of co-operative banks and to make recommendations with a view to ensuring a co-ordinated development of commercial and co-operative banks, having regard, in particular, to (*ii*) above ;

(*vii*) To review the role of various classes of non-banking financial intermediaries, to enquire into their structure and methods of operation and recommend measures for their orderly growth ;

(*viii*) To review the working of the various classes of indigenous banking agencies such as multanis and shroffs, evaluate their utility in the money market complex and to make recommendations in the light of the findings ;

(*ix*) To review the existing legislative enactments relating to commercial and co-operative banking ;

(*x*) To make recommendations on any other related subject matter as the Commission may consider germane to the subject of enquiry or on any related matter which may be specifically referred to the Commission by the Government.

3. The Commission will have its headquarters at Bombay and will start functioning with effect from the 1st March, 1969. It will devise its own procedure and may call for such information and take such evidence as it may consider necessary. The Ministries/Departments of the Government of India will furnish such information and documents and render such assistance as may be required by the Commission. The Reserve Bank will make available all relevant data which the Commission may need and organise such research and studies as the Commission may request. The Reserve Bank will also assist the Commission in other ways including staffing, accommodation, transport facilities and the like.

4. The Commission will submit its report by December 1970.

S. S. SHIRALKAR

Additional Secretary to the Government of India

Appendix II

OPENING REMARKS BY DEPUTY PRIME MINISTER ON THE INAUGURATION OF THE BANKING COMMISSION

It gives me great pleasure in having the opportunity of inaugurating the Banking Commission. I announced the decision to constitute a commission as early as in December, 1967 in the policy statement on social control I made in Parliament. I thought it advisable, however, to hold over the appointment till Parliament has approved the legislative proposals embodying our social control scheme. Now that the Parliament has approved its basic features, the time is ripe that the Commission should start its work. Within the framework of our social control policy, the Commission would have to take a close look at our banking system and suggest how it could be made an efficient instrument in furthering and consolidating the process of social control.

It is nearly forty years since we undertook a comprehensive review of the commercial banking structure. I am referring to the Indian Central Banking Enquiry Committee set up in 1931. The task before that Committee was to suggest measures for the development of commercial banking and to regulate it for protecting the interest of the public. At that time we did not have the Reserve Bank, nor did we have any special Act regulating the commercial banks. As a result of the recommendations of the Committee the Reserve Bank was set up in 1934 though we had to wait till 1949 for the enactment of the special Banking Law. In the early fifties there were a few enquiry committees but these looked into certain specific regional or functional aspects of the banking system. I may refer to the Rural Banking Enquiry Committee 1951, Travancore Cochin Banking Enquiry Commission 1956 and the well-known All India Rural Credit Survey which recommended the setting up of the State Bank of India.

The terms of reference of the Commission clearly define the scope of its work. However, I would like to highlight certain important aspects which need a special emphasis.

Let me at the outset refer to the interesting controversy which has developed regarding the structure of our banking system. There is a widely held view that one of the basic weaknesses of our banking system is that the major all-India banks are organised and equipped to deal with big industries and big clients and that, however much they may try to cater to the needs of the smaller men—whether they are small entrepreneurs or small agriculturists—their very size and methods of operation come in their way. It is argued that even in a country like America, with all its wealth and prosperity, each bank operates within the limits of an individual state. The Boards of such banks consist of local men who know local conditions and who can rightly attend to local problems. Possibly many of our all-India banks, including the State Bank of India, suffer from this over centralization. To cure this defect we have to rely not on any measure of control but on some form of reorganisation which would lead to greater decentralisation. We have to look carefully, therefore, into the size of dispersion and area of operation of our banking system. We have to see whether our purpose can be achieved by creating local boards with adequate powers in the all-India banks or whether the

banks should be split up on a State-wise or zonal basis or whether they should be reconstituted into urban and rural wings. Credit organisations are delicate instruments and one has to be extremely careful before making any regional structural changes in the organisation. Fortunately Indian banking system has attained over the last decade a large measure of stability and has developed confidence in itself. It is adequately equipped to shoulder increased responsibilities and take in its strides any structural changes, if any, that might be needed. I have no doubt, however, that the Commission would look at the problem dispassionately as is expected from a group of experts.

While on this I should like to mention another aspect of our banking structure which has been a frequent source of criticism during the debate on social control. This is about the concentration of banking business in a few States. The statistics are clear enough, whether one takes the measure of population per office or credit deposit ratio of individual banks in different States. To an extent this was somewhat inevitable as the States in India represent administrative rather than natural economic divisions and there is considerable diversity among the various regions. I am not going into the historical reasons of disparity in growth but nonetheless it is our accepted policy to rectify the lopsidedness in our banking structure and thereby remove the social tensions and stresses which are inherent in such regional imbalances. The structure and the organisation of the banking system has to follow the pattern which broadly conforms to our accepted national policy. With the rise in the agricultural incomes in the rural sector we are witnessing a gradual diffusion of prosperity and the shift of the banking business from the few pockets where trade and industry flourishes to the wider countryside should, therefore, be the natural corollary.

There is another aspect about the terms of reference about which I would like to make a particular mention. This is about the costing structure of our banking system. The responsibilities which have devolved on our banks in the context of our social control scheme have raised certain justifiable questions about the adequacy of reserves, the quantum of its annual available surplus and similar matters. A good part of surplus that is available should be canalised for adequate developmental purposes. It would really be unfortunate if improvement in methods and procedures results in the reduction of cost and the surplus is appropriated between capital and labour without leaving anything for the future growth of the industry. Recently in the United Kingdom the Price and Incomes Board undertook a comprehensive study of the bank charges but I do not think we have so far undertaken a detailed study of the costing structure of our banks in relation to the imperative need for creating adequate reserves and carrying through the developmental process by extending banking facilities in hitherto unbanked areas. I am sure the Commission would go into this question with thoroughness and suggest concrete recommendations which would strike an even balance between the requirements of future development and a fair share for the employees and the shareholders.

There is another aspect about the work of the Commission to which adequate attention needs to be given in the initial stage itself. I am referring to the relative inadequacy of banking statistics. Very often conclusions are drawn on a generalised basis without adequate support from a detailed factual study. The resources

of the Reserve Bank would no doubt be available to the Commission and that is one of the reasons I had in view in locating the office of the Commission in Bombay. However, it might be a good idea if some special studies on certain aspects bearing on the Commission are entrusted to outside institutions and universities. We should give an opportunity to the academic institutions to be involved to the extent possible in the Commission's work. This would give them an awareness of the many problems which the Commission has to tackle and I have no doubt that some of these academic institutions could certainly throw new light on many issues.

APPENDIX III

STUDY GROUPS CONSTITUTED BY THE COMMISSION

I. Study Group on Banking Costs

(Constituted with effect from 22nd August 1969 in the Banking Commission, Office Order No. BC/S. Costs. 1-69-70 dated 17th September 1969)

(*a*) *Composition*

(1) Shri Rameshwar Thakur, M.A., B. Com., LL.B., F.C.A. Chartered Accountant, Thapar House, 124, Janpath, New Delhi.	*Chairman*
(2) Shri N. Ramanand Rao, Managing Director, State Bank of India and Member, Banking Commission, Bombay.	*Member*
(3) Shri Kantilal F. Ghiya, Chairman, Ahmedabad District Co-operative Bank Ltd., Ahmedabad.	*Member*
(4) Shri S. R. Mohindroo, General Manager, Punjab National Bank, Parliament Street, New Delh-1.	*Member*
(5) Shri R. K. Datta, Chief Accountant, United Bank of India, 4, Narendra Chandra Dutta Sarani, Calcutta-1.	*Member*
(6) Shri H. B. Dhondy, Chartered Accountant, Messrs H. B. Dhondy & Co., Taj Building, 2nd Floor, 210, Dr. D. N. Road, Bombay-1.	*Member*
(7) Shri L. Swaminathan, B. Sc., LL.B., F.C.W.A., F.I.C.W.A., Messrs Budge Budge Amalgamated Mills Ltd., 8, Clive Row, Calcutta-1.	*Member*

(8) Shri A. V. Ramanathan, Staff Officer, Planning Department, State Bank of India, Bombay-1. — *Convener*

(*b*) *Terms of Reference*

(*i*) To examine the manner in which cost accounting techniques can be used in the banking industry both commercial and co-operative—and to examine the applicability of programmes on this subject developed elsewhere ;

(*ii*) To collect and analyse the data for cost accounting in the Indian banking industry, if necessary on a representative basis ;

(*iii*) To develop methods for estimating the net costs of the various services rendered by banks in India ;

(*iv*) To make recommendations on the extent to which costs in this industry are amenable to control and the manner in which they may be controlled ;

(*v*) To make any recommendations on any other related subject matter as the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

II. Study Group on Legislation Affecting Banking

(Constituted in the Banking Commission, Office Orders Nos. BC/S/LAB-11/69 dated 13th October 1969 and BC.S/LAB-2/69 dated 19th November 1969)

(*a*) *Composition*

(1) Dr. P. V. Rajamannar, D. LITT., LL. D., Retd. Chief Justice of Madras, 9, Victoria Crescent Road, Madras-8. — *Chairman*

(2) Shri Mukund R. Modi, Ex-Judge of Gujarat High Court, 27-L, Jagmohandas Marg, Bombay-6. — *Member*

(3) Shri C. R. Pattabhiraman, "The Grove," Teynampet, Madras-18. — *Member*

(4) Shri R. M. Halasyam, Legal Adviser, Reserve Bank of India, Central Office, Bombay-1. — *Member*

(5) Shri K. J. Natarajan, *Member*
Chief Officer (Operations),
State Bank of India,
Central Office,
Bombay-1.

(6) Shri R. K. Gandhi, *Member*
Manager (Legal),
Bank of Baroda,
3, Walchand Hirachand Marg,
Bombay-1.

(7) Shri R. Krishnan, *Convener*
Assistant Legal Adviser,
Reserve Bank Cell for the Banking Commission,
"White House,"
91, Walkeshwar Road,
Bombay-6.

(*b*) *Terms of Reference*

(*i*) To make a study of the various enactments by the Centre and the States which have an impact on the working of the banking system ;

(*ii*) To consider, in particular, the problems that arise for the working of the banking system as a result of their being subject to the Companies Act, 1956, and the rules made thereunder ;

(*iii*) To examine the special legislation relating to banks and the co-operative credit institutions ;

(*iv*) To examine the existing legislation in respect of non-banking financial intermediaries ; and

(*v*) To make recommendations in respect of (*i*) to (*iv*) above taking into account the future needs of the country in the matter of a flexible and adaptable system of banking institutions and non-banking financial intermediaries.

III. Study Group on Indigenous Bankers

(Constituted in the Banking Commission, Office Order No. BC.S/1B-1/69 dated 24th November 1969)

(a) *Composition*

(1) Shri H. T. Parekh, .. *Chairman*
Vice-Chairman,
Industrial Credit & Investment Corporation of India Ltd.,
163, Backbay Reclamation,
Bombay-20.

(2) Shri V. C. Patel, — *Member*
Custodian,
Central Bank of India,
Mahatma Gandhi Road,
Bombay-1.

(3) Shri G. Lakshminarayanan, — *Member*
Custodian,
Indian Bank,
Indian Chamber Buildings,
Madras-1.

(4) Shri H. L. Narang, — *Member*
President,
Shikarpuri Shroffs Association Ltd.,
384, N. Dabholkar Wadi,
Bombay-2.

(5) Shri Permanand Uttamchand, — *Member*
(Indigenous Banker)
420, Mint Street,
Madras-1.

(6) Shri Mohanlal A. Parekh, — *Member*
President,
Bombay Shroffs Association Ltd.,
233, Shroff Bazaar,
Bombay-2.

(7) Kum. (Dr.) C. J. Batliwalla, — *Convener*
Deputy Director,
Reserve Bank Cell for the Banking Commission,
91, Walkeshwar Road,
Bombay-6.

(b) *Terms of Reference*

(*i*) To review the working of the various classes of indigenous banking agencies such as multanis and shroffs ; evaluate their utility in the money market complex ;

(*ii*) To examine whether indigenous bankers can in course of time usefully extend their activities to provide specialised services in the money and capital markets other than what they are providing at present ;

(*iii*) To consider what steps are necessary to develop the link between indigenous bankers and the organised financial system ; and

(*iv*) To make any recommendations on any other related subject matter as the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

IV. Study Group on Bank Procedures

(Constituted in the Banking Commission, Office Orders Nos. BC/S/BP/1/70 dated 14th February 1970 and BC/S/BP/2/70 dated 5th March 1970)

(a) *Composition*

(1)	Shri D. R. Joshi, Member, Local Advisory Committee, Bank of America, Bombay-1.	*Chairman*
(2)	Shri T. N. Ramamoorthy, Assistant General Manager, Central Bank of India, Mahatma Gandhi Road, Bombay-1.	*Member*
(3)	Shri N. K. Randeria, Law Officer, State Bank of India, Bombay-1.	*Member*
(4)	Shri V. Mahadevan, National Institute of Bank Management, Bombay-6.	*Member*
(5)	Shri S. P. Chandavarkar, In-charge Systems, Union Bank of India, Apollo Street, Bombay-1.	*Member*
(6)	Shri Krishan Murari, Accountant, Bombay Branches, First National City Bank, Veer Nariman Road, Bombay-1.	*Member*
(7)	Shri K. B. Chore, Deputy Chief Officer, Reserve Bank Cell for the Banking Commission, 91, Walkeshwar Road, Bombay-6.	*Convener*

(b) *Terms of Reference*

(*i*) To review the operating methods and procedures prevalent in the banking system in the country and to make suitable recommendations for their

improvement, keeping in view the need for rendering speedy and efficient service to various types of constituents as also the safety of banking transactions ;

(*ii*) To make recommendations on any other related subject matter which the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

V. Study Group on Non-Banking Financial Intermediaries

(Constituted in the Banking Commission, Office Order No. BC/S/NBFI/1 dated 4th June 1970 as amended by Office Order No. BC/S/NBFI/2 dated 18th August 1970)

(*a*) *Composition*

(1)	Dr. Bhabatosh Datta, Member, Banking Commission 1-1/K, Jodhpur Park, Calcutta-31.	*Chairman*
(2)	Shri R. S. Bhatt, Chairman, Unit Trust of India, Bombay Life Building, Veer Nariman Road, Bombay-1.	*Member*
(3)	Shri A. B. Bilimoria, Managing Director, Investment Corporation of India Ltd., Ewart House, Bruce Street, Fort, Bombay-1.	*Member*
(4)	Shri D. N. Kaveeshwar, Deputy Superintendent of Police, Research Division, Central Bureau of Investigation, Ministry of Home Affairs, Government of India, Ramkrishnapuram, East Block No. VII, New Delhi-22.	*Member*
(5)	Shri M. Narasimham, Secretary, Reserve Bank of India, Bombay-1.	*Member*
(6)	Shri S. D. Pardiwalla, Deputy General Manager, Union Bank of India, 5/6, Clive Row, P. B. No. 754, Calcutta-1.	*Member*

(7) Shri T. S. Santhanam, *Member*
Chairman,
Sundaram Finance Ltd.,
52, Peters Road, Madras-14.

(8) Shri Jawaharlal A. Darda, Chairman, *Member*
Maharashtra Co-operative Housing Finance Society Ltd.,
Prithvi Vandan,
Yeotmal.

(9) Shri A. Hasib, *Convener*
Director of Research,
Reserve Bank Cell for the Banking Commission,
White House,
91, Walkeshwar Road,
Bombay-6.

(b) *Terms of Reference*

(*i*) To review the role of various classes of non-banking financial intermediaries at present existing in the country such as Unit and Investment Trusts, Chit Funds, Nidhis and Loan companies, and other finance companies ;

(*ii*) To enquire into the structure and methods of operations of these non-banking financial intermediaries and to recommend measures for their orderly growth (Insurance companies and Development banks such as the I.D.B.I., I.C.I.C.I., S.F.Cs, would be excluded from the purview of the Group);

(*iii*) To consider what other types of non-banking financial intermediaries such as specialised savings banks, building societies, consumer finance companies, Export Import Bank, Small Scale Industries Bank, etc. are needed for the proper development of the economy ;

(*iv*) To recommend appropriate measures therefor ; and

(*v*) To make any recommendations on any other related subject matter as the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

APPENDIX IV

PERSONS AND INSTITUTIONS WHO UNDERTOOK PROJECTS FOR THE COMMISSION

Name of the Person or Institution	Project
1. National Council of Applied Economic Research, New Delhi (by Shri I.Z. Bhatty, Director)	Depositors' Appraisal of Banking Services and Agents'/ Managers' Appraisal of Banking Services.
2. Institute of Economic Growth, Delhi-7. (by Prof. A. M. Khusro, Director and Shri N.S. Siddharthan)	An Econometric Model of Banking in India.
3. Vaikunth Mehta National Institute of Co-operative Management, Pune.	
(*i*) Shri Y. C. Devdhar	Mobilisation of Rural Resources through Co-ordinated Development of Co-operative and Commercial Banks in Sangli District.
(*ii*) Prof. D. Jha	Mobilisation of Rural Resources through Co-ordinated Development of Co-operative and Commercial Banks in Ahmednagar District.
(*iii*) Shri G. S. Kamat and Shri Y. C. Devdhar	Utilisation of Surplus Resources by a District Central Co-operative Bank.
(*iv*) Shri R. V. Nadkarni	Rationale for Fixing Maximum Borrowing Power of Co-operative Banks.
(*v*) Sarvashri D. R. Datar and G.P. Das	Nature and Causes of Overdues.
(*vi*) Shri S. Sivaprakasam	Bank Procedures, Accounting etc.
(*vii*) Shri R. T. Doshi	Assessment of Member-Education Programme in Co-operative Credit Societies.
(*viii*) Prof. M. N. Rudrabasavraj	Executive Development in Commercial and Co-operative Banks.
4. Reserve Bank of India, Economic Department, Division of Rural Surveys, Bombay.	Field Study of Banking Facilities in 12 Districts *viz*., Amritsar (Punjab), Balasore (Orissa), Faizabad (U.P.), Jamnagar (Gujarat), Jodhpur (Rajasthan), Khammam (A.P.), Purnea (Bihar), Sholapur

Name of the Person or Institution	Project
	(Maharashtra) South Kanara (Mysore), Tirunelveli (Tamil Nadu), West Dinajpur (West Bengal), West Nimar (M.P.).
5. State Bank of India, Division of Special Studies, Planning Department, Bombay.	Field Study of Banking Facilities in Goa and Rohtak District (Haryana).
6. Prof. G. Parthasarathy, Head of the Department of Co-operation and Applied Economics, Andhra University, Waltair, A. P.	Credit Facilities and Deposit Mobilisation in Guntur District along with Socio-Economic Survey.
7. Shri D. R. Oza, Principal, Co-operative Training College, Vallabh Vidyanagar, Anand Dist., Gujarat.	Development of Banking Facilities in Jamnagar District. (Gujarat)
8. Kum. Kala S. Pant, Jamnalal Bajaj Institute of Management Studies, University of Bombay, Bombay.	Use of Inventory Control Technique for Cash Management in Banks.
9. Dr. C. Rangarajan of Indian Institute of Management, Ahmedabad and Shri Paul Mampilly of National Institute of Bank Management, Bombay.	Economies of Scale in Banking.
10.	Survey on Problems in Connection with Provision of Bank finance to Small Scale Industrialists and Small Artisans in the Following Centres :
(*i*) Prof. M. S. Khan, Head of the Department of Economics Aligarh Muslim University, Aligarh.	Aligarh.
(*ii*) Dr. N. Somasekhara, Department of Industrial Management, Indian Institute of Science, Bangalore.	Bangalore
(*iii*) Dr. A. C. Minocha, Professor of Economics, Hamidia Arts and Science College, Bhopal.	Bhopal

	Name of the Person or Institution	Project
(*iv*)	Prof. B. V. Mehta, Formerly in the Economics Department, University of Bombay Bombay.	Bombay
(*v*)	Dr. K. Mukherjee, Professor and Head of the Department of Commerce, Calcutta University, Calcutta.	Calcutta
(*vi*)	Prof. S. B. Rangnekar, Department of Economics, Punjab University, Chandigarh.	Chandigarh
(*vii*)	Dr. S. C. Patnaik, Formerly from Department of Economics of Ravenshaw College, Cuttack.	Cuttack
(*viii*)	Dr. Abad Ahmad, Department of Business Management and Industrial Administration, Delhi School of Economics, Delhi.	Delhi
(*ix*)	Prof. S. Sarangapani, Head of the Department of Economics, Gauhati University, Gauhati	Gauhati
(*x*)	Prof. M. Abdul Qadir, Director, The Indian Institute of Economics, Hyderabad.	Hyderabad
(*xi*)	Dr. K. A. Chopra and Shri M. C. Purohit Rajasthan University, Jaipur.	Jaipur
(*xii*)	Prof. Inderjit Singh, Head of the Post Graduate Department of Economics, Commerce and Business Administration, University of Jammu, Jammu.	Jammu

	Name of the Person or Institution	Project
(*xiii*)	Dr. Kamta Prasad, Associate Professor, Indian Institute of Technology, Kanpur.	Kanpur
(*xiv*)	Shri Amar Singh, Department of Economics, Kurukshetra University, Kurukshetra.	Kurukshetra.
(*xv*)	Shri Gurminder Singh, Assistant Professor, Department of Economics, Punjab Agricultural University, Ludhiana.	Ludhiana
(*xvi*)	Dr. V. Shanmugasundaram, Head of the Department of Economics, University of Madras, Madras.	Madras
(*xvii*)	Dr. D. Bright Singh, Professor of Economics, Madurai University, Madurai.	Madurai
(*xviii*)	Dr. Pradhan H. Prasad, Professor of Economics, A. N. S. Institute of Social Studies, Patna-1.	Patna
(*xix*)	Dr. G. J. Khudanpur, Formerly of Gokhale Institute of Politics and Economics, Pune.	Pune
(*xx*)	Shri D. B. Gupte, Department of Economics, South Gujarat University, Surat.	Surat
(*xxi*)	Dr. M. A. Oommen, Department of Economics, Kerala University, Trivandrum.	Trivandrum

APPENDIX V

LIST OF PLACES VISITED BY THE COMMISSION

Tamil Nadu

1. Madras

Kerala

2. Trivandrum
3. Ernakulam

Andhra Pradesh

4. Hyderabad
5. Visakhapatnam

Orissa

6. Bhubaneswar
7. Cuttack
8. Puri
9. Banakhandi Village

Assam and Meghalaya

(Officials of Nagaland met the Commission in Shillong)

10. Shillong
11. Gauhati
12. Mawryngkneng Village

Mysore

13. Bangalore
14. Mysore
15. Mercara
16. Mangalore
17. Kulai (Syndicate bank branch)
18. Suratkal (Syndicate bank branch)
19. Udyawar (Syndicate bank branch)
20. Manipal
21. Bidadi (one-man branch of Canara Bank)

Punjab, Haryana and Himachal Pradesh

22. Faridabad
23. Ludhiana
24. Chandigarh
25. Nangal
26. Simla
27. Kufri (Potato Research Station)

Madhya Pradesh

28. Bhopal

Rajasthan

29. Jaipur

Jammu and Kashmir

30. Srinagar
31. Anantnag

Gujarat

32. Ahmedabad
33. Anand

West Bengal

34. Calcutta

Bihar

35. Patna

Uttar Pradesh

36. Lucknow

Maharashtra

37. Pune

Union Territory of Delhi

38. New Delhi

APPENDIX—VI

LIST OF PERSONS WITH WHOM THE COMMISSION HAD DISCUSSIONS

(arranged in the chronological order of meeting them)

I. TAMIL NADU

1. Sardar Ujjal Singh, Governor.

Government

2. Shri M. Karunanidhi, Chief Minister.
3. Shri P. U. Shanmugam, Minister for Food and Commercial Taxes.
4. Shri Si. Pa. Aditanar, Minister for Co-operation.
5. Shri K. V. Subbiah, Minister for Religious Endowments.
6. Dr. (Shrimathi) Sathiavanimuthu, Minister for Agriculture and Harijan Welfare.
7. Shri E. P. Royappa, Chief Secretary.
8. Shri S. Viswanathan, Additional Chief Secretary.
9. Shri S. Venkitaramanan, Finance Secretary.
10. Shri K. Dravium, Ex-officio Secretary, Industries.
11. Shri A. Padmanabhan, Chairman, Tamil Nadu Industrial Development Corporation.
12. Shri Pasupathi, Secretary, Co-operation.
13. Shri C. G. Rangabashyam, Director of Industries.
14. Shri T. Srinivasan, Director of Treasuries and Accounts.
15. Shri P. B. Krishnaswamy, Registrar of Co-operatives.
16. Shri N. Haribhaskar, Director of Agriculture.
17. Shri Swaminathan, Deputy Secretary, Agriculture Department.
18. Shri S. A. Subramani, Deputy Secretary, Co-operation Department.
19. Shri K. Keshav Kini, Additional Registrar, Co-operative Societies.
20. Shri S. P. Ambrose, Director of Sugar.
21. Shri D. V. Narasimhan, Secretary, Tamil Nadu Industrial Investment Corporation.
22. Shri M. Vaithialingam.

Commercial Banks

23. Shri R. N. Chettur, Custodian, Indian Overseas Bank, Madras.
24. Shri G. Lakshminarayanan, Custodian, Indian Bank, Madras.
25. Shri T. K. Ramasubramanian, Chairman, Bank of Madura Ltd., Madurai.
26. Shri G. S. Annaswami, Chairman, Karur Vysya Bank Ltd., Karur.
27. Shri Kuppabattan, Secretary, Kumbakonam City Union Bank Ltd., Kumbakonam.
28. Shri K. C. Ramachandran, Chairman, South India Bank Ltd., Tirunelveli.
29. Shri T. N. Subbiah, Secretary, South India Bank Ltd., Tirunelveli.
30. Shri R. Jayaraj, Chairman, Tamilnad Mercantile Bank Ltd., Tuticorin.

31. Shri B. K. Madhavan, Secretary, Tanjore Permanent Bank Ltd., Thanjavur.
32. Shri R. Chokkappa, Deputy Secretary, Tanjore Permanent Bank Ltd., Thanjavur.
33. Shri C. R. K. Chetty, Chairman, Lakshmi Vilas Bank Ltd., Karur.

Co-operative Institutions

34. Dr. P. V. Rajamannar, President, Madras State Industrial Co-operative Bank Ltd., Madras.
35. Dr. P. Natesan, President, George Town Co-operative Bank Ltd., G. T. Madras.
36. Shri C. Aandiappan, Secretary, Karur Town Co-operative Bank Ltd., Karur.
37. Shri V. Subramanian, President, Nicholson Co-operative Town Bank Ltd., Thanjavur-1.
38. Shri S. Ramachandra Iyer, Director, Nicholson Co-operative Town Bank Ltd., Thanjavur.
39. Shri N. Subramania Rao, Secretary, Nicholson Co-operative Town Bank Ltd. Thanjavur.
40. Shri M. Muthuswamy, President, Tiruchirappalli City Co-operative Bank Ltd., Puttur, Tiruchirappalli-17.
41. Shri A. B. Kannabiran, President, Big Kancheepuram Co-operative Town Bank Ltd., Kancheepuram.
42. Shri A. Govindarajulu, Secretary, Big Kancheepuram Co-operative Town Bank Ltd., Kancheepuram.
43. Shri N. S. Ramalingam, President, Madras Co-operative Central Land Mortgage Bank Ltd., Mylapore, Madras.
44. Shri N. Sivasubramanian, Secretary, Madras Co-operative Central Land Mortgage Bank Ltd., Mylapore, Madras.
45. Shri M. Parthasarathy, Secretary, Co-operative Central Bank Ltd., Kumbakonam.
46. Shri V. Alagappan, President, Mathurai District Central Co-operative Bank Ltd., Mathurai-1.
47. Shri K. S. Subramania Gounder, President, Salem Co-operative Central Bank Ltd., Salem-1.
48. Shri D. Varthamanan, Secretary , Madras State Co-operative Bank Ltd., Madras-1.
49. Shri V. V. Ramaswamy, Director, Madras State Co-operative Bank Ltd., Madras-1.
50. Shri T. S. Bhakthavatsalam, Assistant Secretary, Madras State Co-operative Bank Ltd., Madras-1.
51. Shri V. R. Ganapathy, Officer, Madras State Co-operative Bank Ltd., Madras-1.
52. Shri S. K. Sambandan, President, Tamil Nadu Handloom Weavers' Co-operative Society Ltd., Madras-8.
53. Shri C. S. Ramachandran, Secretary, Chandrasekharapuram Co-operative Stores, Kumbakonam.

Industrial, Commercial and Other Bodies

54. Shri P. Maruthai Pillai, President, Southern India Chamber of Commerce & Industry, Madras-1.
55. Shri L. L. Narayanan, Member, Executive Committee, Southern India Chamber of Commerce & Industry, Madras-1.
56. Shri P. S. Subramanian, Secretary, Southern India Chamber of Commerce & Industry, Madras-1.
57. Shri C. S. Krishnaswamy, Secretary, Madras Chamber of Commerce, Madras-1.
58. Shri D. N. Sastri, Adviser, Madras Chamber of Commerce, Madras-1.
59. Shri M. V. Kamath, Financial Adviser, T. I. Cycles, Madras.
60. Shri R. N. Ratnam, Chief Accountant, E.I.D. Parry, Madras.
61. Shri M. S. Parthasarathy, Vice-President, Federation of Association of Small Industries of India, Guindy, Madras.
62. Shri D. C. Kothari, President, Southern India Millowners' Association Coimbatore.
63. Shri J. A. Deavin, Southern Indian Mill Owners' Association, Coimbatore.
64. Shri C. G. Reddy, Secretary, Southern India Mill Owners' Association, Coimbatore.
65. Shri K. Ramanathan, President, Industrial Estate Manufacturers' Association, Guindy, Madras.
66. Shri A. N. Srinivasa Rao, President, Small Scale Industries Management Association, Guindy, Madras.
67. Shri P. Bhoja Shetty, C/o Industrial Estate Manufacturers' Association, Madras.
68. Shri T. P. Ravindran, Sudarsan Trading Co. Ltd., Madras -14.
69. Shri P. Shanmugam, Sudarsan Trading Co. Ltd., Madras-14.
70. Shri T. G. Hariharan, Balussery Benefit Chit Fund Private Ltd., Madras-5.
71. Shri C. R. Krishna Rao, President, Triplicane Permanent Fund, Madras-5.
72. Shri V. Viswanathan, Secretary, Triplicane Permanent Fund, Madras-5.
73. Shri S. P. Srinivasan, Inspector General of Registration and Director of Chit Funds, Madras.
74. Shri A. J. Azariah, Assistant, I. G. of Registration, Madras.
75. Shri C. K. Duraivelan, Member, Leather Export Promotion Council, Madras-3.
76. Shri T. A. Rehman, Technical Assistant, Leather Export Promotion Council, Madras-3.
77. Shri A. N. Sattanathan, Chairman, Tobacco Export Promotion Council, Madras-6.
78. Shri T. R. Jayaraman, Secretary, Tobacco Export Promotion Council, Madras-6.
79. Shri T. P. Chandy, Tanners & Leather Traders' Association, Madras-1.

II. KERALA

Government

80. Shri C. Achutha Menon, Chief Minister.
81. Shri M. Gopal Menon, Chief Secretary.
82. Shri N. Chandrabhanu, Agricultural Production Commissioner.

83. Shri P. Velayudhan Nair, Finance Secretary.
84. Shri T. Madhava Menon, Secretary, Industries Department.
85. Shri K. Krishnan Nambiar, Registrar of Co-operative Societies.
86. Shri Shreedhara Menon, Managing Director, Kerala Financial Corporation.

Commercial Banks

87. Shri S. K. Nathan, General Manager, State Bank of Travancore, Trivandrum.
88. Shri N. S. Srinivasan, Deputy General Manager, State Bank of Travancore, Trivandrum.
89. Shri N. Sadasiva Iyer, Superintendent of Special Accounts, State Bank of Travancore, Trivandrum.
90. Shri Joseph Thaliath, Law Officer, State Bank of Travancore, Trivandrum.
91. Shri M. T. Krishnan Nair, Chairman, South Indian Bank Ltd., Trichur.
92. Shri T. A. Maney, Deputy General Manager, South Indian Bank Ltd., Trichur.
93. Shri M. A. Narayanan, Chairman, Catholic Syrian Bank Ltd., Trichur.
94. Shri A. R. Venkateswaran, Chairman, Nedungadi Bank Ltd., Kozhikode.
95. Shri N. P. Vellody, Nedungadi Bank Ltd., Kozhikode.
96. Shri K. G. Nair, Nedungadi Bank Ltd., Kozhikode.
97. Shri K. M. Thariyan, Chairman, Bank of Cochin Ltd., Ernakulam.
98. Shri John A. Akkara, Director, Bank of Cochin Ltd., Ernakulam.
99. Shri K. V. Krishna Iyer, Special Officer, Bank of Cochin Ltd., Ernakulam.
100. Dr. E. K. Madhavan, Chairman, Federal Bank Ltd., Alwaye and President of Cochin Central Coir Marketing Society.
101. Shri P. K. Koruth, Director, Federal Bank Ltd., Alwaye.
102. Shri K. I. Mathew, Director, Federal Bank Ltd., Alwaye.
103. Shri K. P. Hormis, Managing Director, Federal Bank Ltd., Alwaye.
104. Shri P. S. Venkateswara Iyer, Chairman, Parur Central Bank Ltd., N. Parur.
105. Shri K. Krishna Pillai, Secretary, Parur Central Bank Ltd., N. Parur.
106. Shri M. N. Vamana Pai, Chairman, Lord Krishna Bank Ltd., Cranganore.
107. Shri T. P. Sitaraman, Director, Dhanalakshmi Bank Ltd., Trichur.
108. Shri N. S. Mahadevan, Secretary, Dhanalakshmi Bank Ltd., Trichur.

Co-operative Institutions

109. Shri B. V. K. Menon, Chairman, Kerala State Co-operative Bank Ltd., Trivandrum.
110. Shri V. R. Krishnan Ezhuthachan, Vice-Chairman, Kerala State Co-operative Bank Ltd., Trivandrum.
111. Shri M. K. Parameswaran Pillai, Secretary, Kerala State Co-operative Bank Ltd., Trivandrum.
112. Shri K. P. R. Nayar, Secretary, Kerala State Co-operative Bank Ltd., Trivandrum.
113. Shri K. Kunhambu, President, District Co-operative Bank Ltd., Cannanore.
114. Shri K. Kumaran Nair, President, Malabar Co-operative Central Bank Ltd., Kozhikode.

115. Shri A. Krishna Kutty Menon, Secretary, Malabar Co-operative Central Bank Ltd., Kozhikode.
116. Shri N. S. Krishna Pillai, Alleppey District Co-operative Bank Ltd., Alleppey.
117. Shri K. Gopalkrishnan, Manager, Alleppey District Co-operative Bank Ltd., Alleppey.
118. Shri E. Chandrasekaran Nair, Quilon District Co-operative Bank Ltd., Quilon.
119. Shri G. Balakrishnan Nair, Manager, Quilon District Co-operative Bank Ltd., Quilon.

Industrial, Commercial and Other Bodies

120. Shri Joseph George, Member, Travancore Chamber of Commerce, Allepey.
121. Shri K. Balahariharan, Secretary, Travancore Chamber of Commerce, Alleppey.
122. Shri K. Narayana Menon, Vice-President, Indian Chamber of Commerce, Cochin.
123. Shri A. C. Raghava Menon, Member, Executive Committee, Indian Chamber of Commerce, Cochin.
124. Shri V. K. Raja, Secretary, Indian Chamber of Commerce, Cochin.
125. Shri V. Mathen, President, Kerala State Small Industrialists' Association, Cochin.
126. Shri T. G. Krishnan, Secretary, Kerala State Small Industrialists' Association, Cochin.
127. Shri A. K. Bhaskar, Quilon District Small Industries Association, Quilon.
128. Shri George Isaac, Kottayam District Small Industries Association, Kottayam.
129. Shri K. R. Mehta, President, Federation of Chambers of Trade & Industry, Ernakulam.
130. Shri C. C. Joseph, Secretary, Federation of Chambers of Trade & Industry, Ernakulam.
131. Shri P. A. Kurian, Dharmodayam Chit Funds, Trichur.
132. Shri K. T. Paul, Kshemavilasam Company, Trichur.
133. Shri K. A. Thomas, Damien Subsidies Co., Trichur.
134. Shri Joseph, Oriental Kuries, Trichur.
135. Shri K. V. Thomas, Managing Director, Kerala Financial Enterprises.
136. Shri M. Sivadas Menon, Inspector General of Registration, Trivandrum.
137. Dr. Henry Austin, President, Indian Trawlers Association, Ernakulam.
138. Shri R. Hemachandran Nair, Member, Indian Trawlers Association, Ernakulam.
139. Shri G. S. Pai, Member, Indian Trawlers Association, Ernakulam.
140. Shri A. T. Bery, Member, Indian Trawlers Association, Ernakulam.
141. Shri G. N. Panikkar, Publicity Officer, Marine Products Export Promotion Council, Ernakulam.
142. Shri Joseph, Secretary, Rubber Board, Kottayam.
143. Shri S. Rajasekara Pillai, Accountant, Rubber Board, Kottayam.
144. Shri K. T. Ravi Varma, Secretary, Cashew Export Promotion Council, Cochin-16.
145. Shri M. Balaraman Nair, Secretary, Spices Export Promotion Council, Ernakulam.

146. Shri Sridhara Kaimal, Coir Special Officer, Government of Kerala.
147. Shri N. C. J. John, Cochin Central Coir Marketing Society, Cochin.
148. Shri A. Raghavan Nair, District Industries Officer, Alleppey.
149. Shri C. V. Rajappan, Travancore Mats & Matting Manufacturers' Association, Alleppey.
150. Shri K. A. George, President, Cardamom Planters' Association of Kerala, Pampadampara.
151. Shri T. P. Verghese, Secretary, Cardamom Planters' Association of Kerala, Pampadampara.
152. Shri V. D. Joseph, Cardamom Planters' Association of Kerala, Pampadampara.
153. Shri K. M. Mathew, Cardamom Planters' Association of Kerala, Pampadampara.
154. Shri P. K. Sadanandan, Vice-President, Sea Food Exporters' Association, Cochin.
155. Shri M. G. Mathew, Secretary, Sea Food Exporters' Association, Cochin.
156. Shri E. V. Mathew, Sea Food Exporters' Association, Cochin.
157. Shri C. Cherian, Sea Food Exporters Association, Cochin.
158. Shri P. Y. Raghunath, Sea Food Exporters' Association, Cochin.
159. Shri M. V. Thomas, Sea Food Exporters' Association, Cochin.
160. Shri John P. George, Sea Food Exporters' Association, Cochin.
161. Shri P. Balakrishnan, South India Cashewnut Manufacturers' Association, Quilon.

III. ANDHRA PRADESH

162. Shri Khandubhai Desai, Governor.

Government

163. Shri K. Brahmananda Reddi, Chief Minister.
164. Shri K. Vijaya Bhaskara Reddi, Minister for Finance.
165. Shri T. Ramaswamy, Minister for Forests.
166. Shri A. Bhagwantha Rao, Minister for Handloom & Co-operative Sugar Factories.
167. Shri K. Venkataratnam, Minister for Agriculture.
168. Shri G. C. Venkanna, Minister for Small Industries.
169. Shri Ranga Reddi, Chairman, Agro Industries Corporation.
170. Shri M. T. Raju, Chief Secretary.
171. Shri N. Ramesan, Secretary, Finance.
172. Shri K. C. Madappa, Secretary, Industries.
173. Shri E. V. Ram Reddi, Secretary, Food & Agriculture.
174. Shri Syed Hashim Ali, Registrar of Co-operative Societies.
175. Shri B. N. Raman, Managing Director, Agro-Industries Corporation.
176. Shri T. L. Sankar, Additional Director of Industries.
177. Shri Shirazi, Director of Animal Husbandry.
178. Shri Radhakrishnaiah, Deputy Secretary, Food & Agriculture.
179. Dr. T. V. Reddi, Director of Agriculture.
180. Shri Hanumantha Rao, Joint Registrar of Co-operative Societies.
181. Shri S. A. H. Razvi, Liaison Officer for Projects, A. P. Central Co-operative Land Mortgage Bank.

Commercial Banks

182. Shri K. Gopal Rao, Chairman, Andhra Bank Ltd., Hyderabad.
183. Shri M. Subba Rao, General Manager, Andhra Bank Ltd., Hyderabad.
184. Shri R. V. Narasimha Rao, Assistant General Manager, Andhra Bank Ltd., Hyderabad.
185. Shri S. Nagarajan, Assistant General Manager, Andhra Bank Ltd., Hyderabad.
186. Shri P. Sitapati Rao, General Manager, State Bank of Hyderabad., Hyderabad.

Co-operative Institutions

187. Shri S. Satyanarayanaraju, President, Andhra Pradesh State Co-operative Bank Ltd., Hyderabad.
188. Shri J. Narayan Rao, Secretary, Central Co-operative Bank Ltd., Karimnagar, Hyderabad.
189. Shri L. T. Narayana, Accountant, Central Co-operative Bank Ltd., Karimnagar, Hyderabad.
190. Shri M. Satyanarayana, Secretary, Co-operative Central Bank Ltd., Rajahmundry.
191. Shri H. Vengal Reddy, President, Kurnool District Central Co-operative Bank Ltd., Kurnool.
192. Shri V. Suryanarayana, Vice-President, Co-operative Central Bank Ltd., Vizianagaram.
193. Shri S. Ramanaiya, Secretary, Co-operative Central Bank Ltd., Vizianagaram.
194. Shri P. Janardan Reddy, President, Central Co-operative Bank Ltd., Warangal.
195. Shri P. V. Subbaiah, President, Urban Central Co-operative Bank Ltd., Vijayawada.
196. The President, Eluru Co-operative Bank Ltd., Eluru (With his colleagues).
197. Shri Williams, Tirupati Co-operative Town Bank Ltd., Tirupati (With his colleagues).
198. Shri T. Sudarshan Reddy, President, Adilabad Jilla Kendra Sahakari Bank Ltd., Adilabad.
199. Shri K. R. Prasad, Adilabad Jilla Kendra Sahakari Bank Ltd., Adilabad.
200. Shri Krishnan, Agent, State Bank of India, Guntur. (With some tobacco growers of Guntur District).
201. Shri Mahboob Khan, Secretary, Hyderabad Taxi Drivers' Co-operative Society Ltd., Hyderabad.
202. Shri I. Radhakrishnamurthy, Special Officer, Hyderabad Taxi Drivers' Co-operative Society Ltd., Hyderabad.
203. Shri S. Narasimha, Member, Hyderabad Taxi Drivers' Co-operative Society Ltd., Hyderabad.
204. Shri Chitta Pedda Venkataswamy, Chairman, Andhra Co-operative Spinning & Weaving Company, Guntakal, (Anantpur District).
205. Shri Pragada Kotaiah, M.L.A., Andhra Handloom Weavers Co-operative Society Ltd., Vijayawada.
206. The President, Andhra Handloom Weavers' Co-operative Society Ltd., Vijayawada.

207. Shri B. Venkat Narsiah, Secretary, Andhra Handloom Weavers' Co-operative Society Ltd., Vijayawada.
208. Shri G. Suryam, Business Manager, Andhra Handloom Weavers' Co-operative Society Ltd., Vijayawada.
209. Shri Maddi Yellamandayya, President, North Pedana Weavers' Co-operative Society Ltd., Pedana (Krishna Dt.).

Industrial, Commercial and Other Bodies

210. Shri A. M. Lal, President, Federation of Andhra Pradesh Chambers of Commerce & Industry, Hyderabad.
211. Shri W. V. S. Ramalingam, Managing Committee Member, Federation of Andhra Pradesh Chambers of Commerce & Industry, Hyderabad.
212. Shri Manoharlal Gupta, Andhra Roller Flour Mills, c/o. Federation of Andhra Pradesh Chambers of Commerce & Industry, Hyderabad-4.
213. Shri Banarsilal Gupta, Hyderabad Trade Association, Hyderabad-4.
214. Shri Purshottam V. Patel, Mayur Kunj Grape Garden, Hyderabad-4.
215. Shri Manhar N. Patek, A. P. Grape Growers Association, Hyderabad-4.
216. Shri Ghanshyamdas J. Shah, Hyderabad Radio House, Hyderabad-4.
217. Shri B. S. S. Rai, Indian Overseas Bank, Hyderabad.
218. Shri Maddi Ranganath Sai, East Coast Flour Mills Pvt. Ltd., Guntur.
219. Shri E. B. V. Raghavaiah, Vijaya Spinning Mills Ltd., Vijayawada.
220. Shri G. Mangilal Surana, Surana Industries, Hyderabad-4.
221. Shri S. Ramachar, Hindusthan Ideal Insurance Co. Ltd., Hyderabad.
222. P. L. Bhandari, Sirpur Paper Mills Ltd., Sirpur, Kagazhnagar.
223. Shri Ramesh Chandra Lahoti, Film Exhibitors Association, Hyderabad.
224. Shri K. L. N. Prasad, Andhra Printers Ltd., Vijayawada.
225. Shri Ramarow Macherla, Biochemical & Synthetic Products Ltd., Hyderabad-4.
226. Shri Ramakrishna Rao, A. P. State Financial Corporation, Hyderabad.
227. Shri C. B. Ayapa, National Carbon Co., Hyderabad.
228. Shri A. D. Colash, Bank of India, Hyderabad.
229. Shri Manik Arke, Tandur & Navandgi Stone Quarries Pvt. Ltd., Hyderabad-4.
230. Shri C. Madhava Reddi, Chairman, A. P. Small Scale Industries Corporation Ltd., Hyderabad.
231. Shri Sohni, Accounts Officer, A. P. Industrial Development Corporation Ltd., Hyderabad.
232. Shri B. V. K. Raju, Joint Director of Industries, Balanagar, Hyderabad.
233. Shri K. L. Narasimha Rao, Deputy Director of Industries, Visakhapatnam.
234. Shri Kesavan, Bharat Tyre & Rubber Products, Visakhapatnam.
235. Shri P. V. Subba Rao, V. V. S. Iron Works, Visakhapatnam.
236. Shri M. M. Hussain, Kamal Steel Industries, Visakhapatnam.
237. Shri T. Rajagopala Rao, Associated Tanners, Visakhapatnam.
238. Shri O. Sriramachandra Murthy, Sharada Bakery, Visakhapatnam.
239. Shri Nageswara Rao, Emerald Ice Cream Co., Visakhapatnam.
240. Shri Gupta, Tirupathi Roller Flour Mills, Visakhapatnam.
241. Shri P. Kasipathy, Vizag Steel Mills, Visakhapatnam.
242. Shri A. Suryanarayana Rao, Surya Industries, Visakhapatnam.
243. Shri Nageswara Rao, Balaji Cement Industries, Visakhapatnam.
244. Shri George, Asiatic Metal Engineering Corporation, Visakhapatnam.

245. Shri Reddy, Ramadas Motor Transport, Visakhapatnam.
246. Shri G. V. Ramana, G. A. Naidu & Sons, Visakhapatnam.
247. Shri K. Seetharama Rao, Cashew Shell Oil Unit, Visakhapatnam.
248. Shri D. Venkataraju, Vizag Tube Company, Visakhapatnam.
249. Shri Murthy, Vizag Bottling Company, Visakhapatnam.
250. Shri D. Krishna Rao, General Engineering Workshop, Visakhapatnam.
251. Shri P. L. Sivaram, Collector, Visakhapatnam.
252. Shri V. Chandramouli, Managing Director, Andhra Pradesh Girijan Co-operative Development Corporation Ltd., Visakhapatnam.
253. Shri K. V. Kesavulu, Chairman, Co-operative Industrial Estate, Balanagar, Hyderabad.
254. Shri S. G. Dhopeswarkhar, Vice-Chairman, Co-operative Industrial Estate, Balanagar, Hyderabad.
255. Shri Annam Vishwanatha Rao, M/s. Sri Venkateswara Chemicals, Hyderbad.
256. Shri S. P. Agarwal, M/s. Neeta Enterprises Pvt. Ltd., Hyderabad.
257. Shri V. Venkataramaiah, M/s. Instrument Techniques Laboratory, Hyderabad.
258. Shri P. N. Prabhakar, M/s. Navin Industries, Hyderabad.
259. Shri Sedhmal Agarwal, Trinity Metal Industries, Hyderabad.
260. Shri Harischandra Gupta, M/s. Purushottam Traders Pvt. Ltd., Hyderabad.
261. Shri Shankar Prasad Jaiswal, M/s. Mallikarjunna Industries, Hyderabad.
262. Shri I. J. Mirchandani, M/s. M. G. Shahani & Co. (Delhi) Pvt. Ltd., Hyderabad.
263. Shri Purushottam Agarwal, Member, M/s. Metal Engineers, Hyderabad.
264. Shri Bhargava, Scientific Engineering Co. Ltd., Industrial Estate, Sanatnagar, Hyderabad.
265. Shri K. R. Chowdhary, Electric Transformers & Equipment Co., Industrial Estate, Hyderabad-18.
266. Shri Vallabdas Asar, Suderdas & Co., Industrial Estate, Hyderabad.
267. Shri D. V. S. Raju, Electronic & Industrial Instruments Co. Pvt. Ltd., Industrial Estate, Hyderabad.
268. M/s. A. P. Plastic Manufacturers Association, Osmanganj, Hyderabad.
269. Shri Ramakrishna Gupta, Hyderabad Iron & Steel Works, Hyderabad-20.
270. Shri A. S. Kohli, A. P. Industrial Corporation, Hyderabad.
271. Shri A. Sambasiva Reddy, M/s. S. R. V. S. Industries, Hyderabad-37.
272. Shri K. R. Narasimham, M/s. Sree Ranganadha Chemicals & Pharmaceuticals, Hyderabad-37.
273. Shri Dattatreyulu, Administrative Officer, Industrial Estate, Balanagar, Hyderabad-37.
274. Shri Elias, State Bank of India, Staff Training College with Faculty Members, Hyderabad.

IV. ORISSA

275. Dr. S. S. Ansari, Governor.

Government

276. Shri R. N. Singh Deo, Chief Minister.
277. Shri Raja Vallabh Misra, Minister for Agriculture.

278. Shri Murari Prasad Misra, Minister for Co-operation.
279. Shri A. K. Barren, Chief Secretary.
280. Shri V. Natarajan, Secretary, Industries.
281. Shri C. G. Somayya, Secretary, Co-operation.
282. Shri Habib Mohammed, Secretary, Agriculture.
283. Shri J. S. Baijal, Secretary, Finance.
284. Shri K. Bhoi, Director, Agriculture.
285. Shri S. K. Lall, Additional Director, Industries.
286. Shri S. N. Rath, Deputy Secretary, Agriculture.
287. Shri A. K. Roy, Registrar of Co-operative Societies.

Co-operative Institutions

288. Shri B. C. Hota, President, Orissa State Co-operative Bank Ltd., Cuttack.
289. Shri Y. R. Bali, Managing Director, Orissa State Co-operative Bank Ltd., Cuttack.
290. Shri Bimal Mishra, Puri Urban Co-operative Bank Ltd., Puri.
291. Shri Padamehru Sanant Sinh of Puri Urban Central Co-operative Bank Ltd., Puri.
292. Shri N. Ramakrishna Rao, President, Berhampur Co-operative Central Bank Ltd., Puri.
293. Shri P. C. Samant Singhar, President, United Puri-Nimapara Co-operative Bank Ltd., Puri (and others).
294. Shri Kanhu Charan Jati, President, Orissa State Handloom Weavers' Co-operative Society, Cuttack.
295. Shri Kamalakant Ponde, President, Service Co-operative Society, District Sambalpur.
296. Shri P. K. Patnaik, Secretary, Orissa State Co-operative Marketing Society, Cuttack.

Industrial, Commercial and Other Bodies

297. Shri B. R. Bondlan, Secretary, District Small Industries Association, Sambalpur.
298. Shri Jagdish Lal, Metalex Industries, Cuttack-3.
299. Shri S. Kagoris, Orissa Steel & Wire Products, Cuttack-3.
300. Shri P. D. Dalmia, Shri Shankar Industries Pvt. Ltd., Cuttack-3.
301. Shri G. R. Agrawal, Sibco Industries, Cuttack-3.
302. Shri V. Mungal, Keshwanand Ramanand, Cuttack-3.
303. Shri B. Gandhi, A. B. Industries, Cuttack-3.
304. Shri K. C. Munjal, Kartik Enterprises, Cuttack-3.
305. Shri S. J. Serand, Jeet Udyog, Cuttack-3.
306. Shri Bhaskar Ponda, Hindusthan Fabricators, Cuttack-3.
307. Shri R. K. Dalmia, President, D.S.S.A., Sambalpur.
308. Shri D. J. Thacker, Thacker Brothers, Cuttack-3.
309. Shri C. M. Mishra, President, D.S.I.A., Cuttack-3.
310. Shri C. J. Reddy, Industrial Supervisor, Government of Orissa, Cuttack-1.
311. Shri N. C. Pradhan, Spark Batteries Manufacturing Works, Cuttack-3.
312. Shri S. J. Mahapada, Orissa Agrico, Cuttack-3.

313. Shri D. K. Rout, Dist. Industries Supervisor, Cuttack-3.
314. Shri B. Pati, Deputy Director of Industries, Cuttack-1.
315. Shri R. J. Jena, Manager, Industrial Estate, Cuttack-3.
316. Shri Brundaban Das, Friends Auto Electric Works, Cuttack-1.
317. Shri R. G. Iyer, Merchant, Cuttack-3.
318. Shri M. P. Tayal, Utkal Plastic Industries, Cuttack-3.
319. Shri G. P. Mahanty, Cuttack Productivity Council, Cuttack-3.
320. Shri H. K. Gauntia, District Industries Officer, Cuttack-3.
321. Shri Sarweswar Biswas, Vice-President, Service Co-operative Society, Banakhindi Village.
322. Shri G. Patnaik, President, Orissa Chamber of Commerce & Industry, Cuttack-1.
323. Shri Basudeo Prasad Modi, Vice-President of Orissa Chamber of Commerce & Industry, Cuttack-2.
324. Shri S. C. Parija, Vice-President of Orissa Chamber of Commerce & Industry, Cuttack.
325. Shri Surendranath Patnaik, Member of Orissa Chamber of Commerce & Industry, Cuttack.
326. Shri S. K. Patnaik, Member of Orissa Chamber of Commerce & Industry, Cuttack.
327. Shri K. R. Das, Member of Orissa Chamber of Commerce & Industry, Cuttack.
328. Shri S. T. P. S. Jagannadhacharyulu, Member of Orissa Chamber of Commerce & Industry, Cuttack.
329. Shri J. K. Jhunjhunwala, Member of Orissa Chamber of Commerce & Industry, Cuttack.
330. Shri S. K. Patnaik, Joint Honorary Secretary of Orissa Chamber of Commerce & Industry, Cuttack.
331. Shri D. N. Chowdhury, Managing Partner, K. P. Agency, Cuttack-1.
332. Shri D. Mohapatra, Ex. Jt. Secretary, Finance Department, Lewis Road, Bhubaneshwar-1.
333. Shri K. C. Mohanty, Prakash Bros, Khurda Krushi Udyog, Bhubaneshwar.
334. Shri P. K. Patnaik, Patnaik & Company (P) Ltd., Cantonment Road, Cuttack-1.
335. Shri B. N. Roy Chowdhury, Surveyor and Assessor of Insurance Companies Bangali Sahi, Cuttack-1.
336. Shri B. P. Chatterjee, Agent, State Bank of India, Cuttack.
337. Shri D. P. Bhawsinka, Cuttack Chamber of Commerce, Malgodown, Cuttack.
338. Shri Gajananda Agrawal, Secretary, Utkal Chamber of Commerce & Industry, Cuttack.

V. ASSAM

339. Shri B. K. Nehru, Governor, Assam, Meghalaya & Nagaland.

Government

340. Shri B. P. Chaliha, Chief Minister.
341. Shri K. P. Tripathy, Finance Minister.
342. Shri L. P. Goswami, Minister, Agriculture.

343. Shri B. D. Sharma, Minister, Industries.
344. Shri S. M. Rahman, Development Commissioner.
345. Shri G. C. Phukan, Finance Commissioner.
346. Shri M. Ahmed, Secretary, Industries.
347. Shri R. Chandra, Agricultural Commissioner.
348. Shri R. T. Rymbai, Secretary, Co-operative, Panchayats, Agriculture & Refinance.
349. Shri B. Barua, Registrar of Co-operative Societies.
350. Dr. K. C. Mahanti, Director of Agriculture.
351. Shri A. K. Sarma, Joint Director, Agriculture.
352. Shri N. K. Bhattacharya, I/C Deputy Director, Animal Husbandry.

Commercial Banks

353. Shri G. N. Kakati, General Manager, Gauhati Bank Ltd., Gauhati.

Co-operative Institutions

354. Shri S. G. Goswami, Chairman, Assam Apex Co-operative Bank Ltd., Shillong.
355. Shri P. R. Kyndiah, Vice-Chairman, Assam Apex Co-operative Bank Ltd., Shillong.
356. Shri N. Borthakur, Director, Assam Apex Co-operative Bank Ltd., Shillong.
357. Shri M. K. Das, Secretary, Assam Apex Co-operative Bank Ltd., Shillong
358. Shri B. C. Sarma, Officer in Charge of Advances, Assam Apex Co-operative Bank Ltd., Shillong.
359. Shri B. N. Das, Chief Accountant, Assam Apex Co-operative Bank Ltd., Shillong.
360. Shri Md. Jonab Ali, Chairman, Nowgong Central Co-operative Bank Ltd., Nowgong.
361. Shri A. Barooah, Managing Director, Assam Co-operative Central Land Mortgage Bank Ltd., Gauhati
362. Shri Ramesh Chandra, Agricultural Production Commissioner, Shillong.
363. Shri R. N. Sarma, Chairman, Apex Marketing Society, Gauhati.

Industrial, Commercial & Other Bodies

364. Shri J. N. Bawri, Assam Chamber of Commerce, Shillong.
365. Shri D. P. Aggarwal, Secretary, Assam Chamber of Commerce, Shillong.
366. Shri D. Majumdar, Member, Assam Chamber of Commerce, Shillong.
367. Shri B. R. Dugar, Darrang Chamber of Commerce, Tezpur.
368. Shri Kishan P. Barooah, Managing Director, Assam State Financial Corporation, Shillong.

VI. MEGHALAYA

Government

369. Capt. W. A. Sangma, Chief Minister.
370. Shri B. B. Lyngdoh, Finance Minister.
371. Shri S. D. D. Nichols Roy, Minister for Agriculture and Industries.

372. Shri K. L. Pasricha, Chief Secretary.
373. Shri K. Saigal, Finance Secretary.
374. Shri R. V. Lyngdoh, Industries & Transport Secretary.
375. Shri M. D. Rapthap, Agriculture Secretary.
376. Shri A. Ali, Joint Secretary, Finance.
377. Shri S. K. Agnihotri, Joint Secretary, Personnel.

VII. NAGALAND

Government

378. Shri R. Khathing, Chief Secretary.
379. Shri R. K. Ganguly, Secretary, Finance.
380. Shri P. K. Borpatra Gohain, Joint Registrar, Co-operative Societies.

Co-operative Institutions

381. Shri T. Barooah, General Manager, Nagaland State Co-operative Bank Ltd., Dimapur.
382. Shri Ktlsliwent Mejaw, Chairman, Mawryngkneng Sub-Area Co-operative Marketing Society.

VIII. MYSORE

383. Shri Dharma Vira, Governor.

Government

384. Shri Veerendra Patil, Chief Minister.
385. Shri Ramakrishna Hegde, Finance Minister.
386. Shri Shankar Rao, Minister, Animal Husbandry.
387. Shri Rachaiah, Minister, Agriculture.
388. Shri R. N. Vasudeva, Chief Secretary.
389. Shri G. V. K. Rao, Additional Development Commissioner.
390. Shri N. Narasimha Rau, Secretary, Co-operation.
391. Shri N. S. Bharath, In Charge Secretary, Finance.
392. Shri C. A. Jamkhandimath, Registrar of Co-operative Societies.
393. Shri J. C. Lynn, Private Secretary to the Chief Minister.
394. Shri V. Byrappa, Secretary, Agriculture & Food.
395. Shri V. Balasubramanian, Deputy Secretary, Planning & Social Welfare.
396. Shri B. P. Patil, Deputy Secretary, Industries & Commerce.
397. Shri H. S. Ramachandra, Joint Registrar of Co-operative Societies.
398. Shri C. S. Hubli, Joint Registrar of Co-operative Societies.
399. Shri R. S. Venkatramiah, Deputy Registrar of Co-operative Societies.

Commercial Banks

400. Shri K. P. J. Prabhu, Custodian, Canara Bank, Bangalore.
401. Shri B. V. Bhandary, Deputy General Manager, Canara Bank, Bangalore.
402. Shri C. E. Kamath, Canara Bank, Bangalore.

403. Shri C. G. Kini, Canara Bank, Bangalore.
404. Shri U. K. Kini, Acting Deputy General Manager, Canara Bank, Bangalore.
405. Shri S. R. Prabhu, Chief Inspector of Branches, Canara Bank, Bangalore.
406. Shri G. Urnish Rao, Superintendent, Canara Bank, Bangalore.
407. Shri K. K. Pai, Custodian, Syndicate Bank, Manipal.
408. Shri H. N. Pai, Controller of Advances, Syndicate Bank, Manipal.
409. Shri H. N. Rao, Chief Accountant, Syndicate Bank, Manipal.
410. Shri T. R. Sivaraman, General Manager, State Bank of Mysore, Bangalore.
411. Shri G. M. Natarajan, Deputy General Manager, State Bank of Mysore, Bangalore.
412. Shri M. Paramashivayya, Assistant General Manager, State Bank of Mysore, Bangalore.
413. Shri M. R. Arya, Chairman, Vysya Bank Ltd., Bangalore City.
414. Shri G. Venkataram, Deputy General Manager, Vysya Bank Ltd., Bangalore City.
415. Shri B. L. Srihari, Principal, Staff Training School, Vysya Bank Ltd., Bangalore City.
416. Shri Satyanarayana, Assistant General Manager, Vysya Bank Ltd., Bangalore City.
417. Shri M. Sunder Ram Shetty, Chairman, Vijaya Bank Ltd., Mangalore.
418. Shri P. Jayarama Shetty, Secretary, Vijaya Bank Ltd., Mangalore.
419. Shri K. B. Kirtikar, Chairman, Belgaum Bank Ltd., Belgaum.
420. Shri Gopalakrishna Nayak, Chairman, Canara Banking Corporation Ltd., Managalore.
421. Shri Prabhu, Managing Director, Canara Banking Corporation Ltd., Mangalore.
422. Shri K. Suryanarayan Adiga, Chairman, Karnataka Bank Ltd., Mangalore.

Co-operative Institutions

423. Shri Veershetty Kushnoor, President, Mysore State Apex Co-operative Bank Ltd., Bangalore.
424. Shri B. S. Vijayagopal, Managing Director, Mysore State Apex Co-opertive Bank Ltd., Bangalore.
425. Shri L. S. Venkaji Rao, President, Mysore State Industrial Co-operative Bank Ltd., Bangalore.
426. Shri S. C. Edike, Director, Mysore State Industrial Co-operative Bank Ltd., Bangalore.
427. Shri Jwalamiah, Mysore State Industrial Co-operative Bank Ltd., Bangalore.
428. Shri N. Krishnaswamy, Secretary, Mysore State Industrial Co-operative Bank Ltd., Bangalore.
429. Shri B. M. Krishnamurthy, Accounts Officer, Mysore State Industrial Co-operative Bank Ltd., Bangalore.
430. Shri Y. C. Bolmal, Vice-President, Belgaum District Industrial Co-operative Bank Ltd., Bangalore.

431. Shri S. N. Vanahalli, Senior Bank Inspector, Belgaum District Industrial Co-operative Bank Ltd., Bangalore.
432. Shri G. Rane Gowda, Belgaum District Industrial Co-operative Bank Ltd., Bangalore.
433. Shri M. H.M. Gurushankariah, Member, Mysore State Co-operative Development Board, Hospet.
434. Shri K. S. Nanjappa, Director, Bangalore Central Co-operative Bank Ltd. Bangalore.
435. Shri P. Gopalkrishna Setty, Secretary, Mysore State Urban Co-operative Banks' Association.
436. Shri L. M. Allumkanbasappa, M. L. A. President, Bellary District Central Co-operative Bank Ltd., Hospet.
437. Shri Ajjibal Hegde, President, District Central Co-operative Bank Ltd., Sirsi (N. Kanara)
438. Shri P. L. Patel, President, District Central Co-operative Bank Ltd., Dharwar.
439. Shri M. Orekordy, Secretary, Urban Co-operative Bank Ltd., Davangere.
440. Shri C.H. Swaminathan, President, Mysore Artisans Co-operative Society, Bangalore-2.
441. Shri Rangaswamy Raju, Secretary, Mysore Artisans Co-operative Society, Bangalore-2.

Industrial, Commercial & Other Bodies

442. Shri C. G. Rama Rao, President, Mysore Chamber of Commerce & Industry, Bangalore.
443. Shri M. K. Ramachandra, Past President, Mysore Chamber of Commerce & Industry, Bangalore.
444. Shri Jeemabhai Devidoss, Past President, Mysore Chamber of Commerce & Industry, Bangalore.
445. Shri M. L. Gopal Setty, Member, Mysore Chamber of Commerce & Industry, Bangalore.
446. Shri A. Krishnamurti, Past President, Mysore Chamber of Commerce & Industry, Bangalore.
447. Shri H. W. S. Pai, Member, Mysore Chamber of Commerce & Industry, Bangalore.
448. Shri G. N. Krishnamurthy, Secretary, Mysore Chamber of Commerce & Industry, Bangalore.
449. Shri P.G. Gurjar, Vice-President, United Planters' Association of Southern India (UPASI), Coonoor-1.
450. Shri Tika Bedi, United Planters' Association of Southern India (UPASI) Coonoor-1.
451. Shri K. S. Vydianathan, United Planters' Association of Southern India (UPASI), Coonoor-1.
452. Shri B. Sivaram, Assistant Secretary, United Planters' Association of Southern India (UPASI), Coonoor-1.
453. Shri K. Ramdas, United Planters' Association of Southern India (UPASI), Coonoor-1.
454. Shri B. Krishnamurthy, Acting Chairman, Coffee Board, Bangalore-1.

455. Shri S. M. Krishnamachari, Accounts Officer, Coffee Board, Bangalore-1.
456. Shri H. T. Ranga Setty, Development Officer, Coffee Board, Bangalore-1.
457. Shri N. R. Gawankar, President, All Mysore Small Scale Industries Association, Bangalore-9.
458. Shri M. Krishnamurthy, Past General Secretary, All Mysore Small Scale Industries Association, Bangalore-9.
459. Shri N. Bhoomanand Manay, Joint Secretary, All Mysore Small Scale Industries Association, Bangalore-9.
460. Shri V. G. Joshi, Treasurer, All Mysore Small Scale Industries Association, Bangalore-9.
461. Shri B. V. Krishnamurthy, All Mysore Small Scale Industries Association, Bangalore-9.
462. Shri S. Krishnamurthy, All Mysore Small Scale Industries Association, Bangalore-9.
463. Shri A. K. V. Subramanyan, All Mysore Small Scale Industries Association, Bangalore-9.
464. Shri Sethu Madhavachar, All Mysore Small Scale Industries, Association, Bangalore-9.
465. Shri F. K. Irani, President, Chamber of Commerce & Industry, Mysore.
466. Shri R. Vasudevamurthy, Secretary, Chamber of Commerce & Industry, Mysore.
467. Shri V. S. Kanolkar, Chamber of Commerce & Industry, Mysore.
468. Shri Mahavir Prasad, Chamber of Commerce & Industry, Mysore.
469. Shri Sastri, Honorary Treasurer, Chamber of Commerce & Industry, Mysore.
470. The Agent, One-man branch of Canara Bank, Bidadi.
471. Shri Rajaram Mallayya, President, Canara Chamber of Commerce, Mangalore.
472. Shri Sadananda Pai, Export Trade, Canara Chamber of Commerce, Mangalore.
473. Shri K. P. Kasturi, Honorary Secretary, Chamber of Commerce, Mangalore.
474. Shri K. P. Hegde, Manager, Canara Chamber of Commerce, Mangalore.
475. Shri H. V. Kamath, Mangalore Coffee & Produce Merchants' Association, Mangalore.
476. Shri K. V. Row, Member, Mangalore Coffee & Produce Merchants' Association, Mangalore.
477. Shri D. Shenoy, Member, Mangalore Coffee & Produce Merchants' Association, Mangalore.
478. Agent and staff of Syndicate Bank at Kulai.
479. Agent and staff of Syndicate Bank at Suratkal.
480. Agent and staff of Syndicate Bank at Udyawar.

IX. HARYANA

481. Shri B. N. Chakravarty, Governor.

Government

482. Shri Bansi Lal, Chief Minister.
483. Shrimati Om. Prabha Jain, Finance Minister.

484. Shri Khan Abdul Ghaffar Khan, Industries Minister.
485. Shri Saroop Singh, Minister for Co-operation.
486. Shri Bhajan Lal, Minister for Agriculture.
487. Shri Saroop Krishen, Chief Secretary.
488. Shri B. S. Grewal, Financial Commissioner and Planning Secretary.
489. Shri Ishwar Chandra, Secretary, Industries.
490. Shri Vineet Nayyar, Joint Secretary, Development.
491. Shri G. L. Bailur, Registrar of Co-operative Societies.
492. Shri L. C. Gupta, Director of Industries.
493. Shri S. K. Sharma, Deputy Secretary, Planning.
494. Shri K. R. Punia, Deputy Secretary, Co-operative Institutional Finance.
495. Shri S. K. Jain, Deputy Secretary, Industries.

Co-operative Institutions

496. Shri Charan Singh, Vice-President, Haryana State Co-operative Bank Ltd., Chandigarh.
497. Shri B. L. Tanwar, General Manager, Haryana State Co-operative Bank Ltd., Chandigarh.
498. Shri Iqbal Narain, Assistant Secretary, Haryana State Co-operative Land Mortgage Bank Ltd., Chandigarh.
499. Shri B. S. Chowhan, Additional Secretary, Haryana State Co-operative Land Mortgage Bank Ltd., Chandigarh.
500. Shri Maharaj Kishan, Manager, Sirsa Central Co-operative Bank Ltd.
501. Shri K. B. Bajaj, Manager, Haryana State Co-operative Bank Ltd., Chandigarh.
502. Shri Jagjit Singh, Managing Director, Ambala Central Co-operative Bank Ltd., Ambala.
503. Shri J. C. Kanwar, Deputy Registrar of Co-operative Societies.
504. Shri R. C. Tandon, Assistant Registrar of Co-operative Societies.

Industrial, Commercial and Other Bodies

505. Shri Dyan, Committee Member, Haryana Chamber of Commerce & Industry, Ambala.
506. Shri I. S. Bhalla, Honorary Secretary, Haryana Chamber of Commerce & Industry, Ambala.
507. Shri K. P. Singh, Faridabad Industries Association, Faridabad.
508. Shri Ramesh Jindal, Faridabad Industries Association, Faridabad.
509. Shri S. N. Sud, Faridabad Industries Association, Faridabad.
510. Shri M. L. Manchanda, Faridabad Industries Association, Faridabad.
511. Shri B. N. Jain, Faridabad Industries Association, Faridabad.
512. Shri R. C. Brar, Faridabad Industries Association, Faridabad.
513. Shri B. P. Garodia, Faridabad Industries Association, Faridabad.
514. Shri S. K. Agarwal, Faridabad Industries Association, Faridabad.
515. Shri S. P. Chaudhary, Faridabad Industries Association, Faridabad.
516. Shri D. K. Jain, Faridabad Industries Association, Faridabad.
517. Shri M. M. Karnik, Faridabad Industries Association, Faridabad.
518. Shri R. K. Jain, Faridabad Industries Association, Faridabad.
519. Shri S. C. Gupta, Faridabad Industries Association, Faridabad.

520. Shri P. Vasudeva, Faridabad Industries Association, Faridabad.
521. Shri Nawal Kishore, Faridabad Industries Association, Faridabad.
522. Shri J. C. Relan, State Bank of India, Faridabad.
523. Shri Kuldip Singh, Central Bank of India, Faridabad.
524. Shri Lamba, Oriental Bank of Commerce Ltd., Faridabad.
525. Shri M. L. Kohli, Lakshmi Commercial Bank Ltd., Faridabad.
526. Shri S. K. Abrol, New Bank of India Ltd., Faridabad.
527. Shri K. G. Kamath, Canara Bank, Faridabad.

X. PUNJAB

Government

528. Shri S. Balwant Singh, Finance Minister.
529. Shri Hardev Singh Chhina, Commissioner for Finance & Planning and Secretary to Government.
530. Shri Prit Mohinder Singh, Development Commissioner.
531. Shri V. P. Malhotra, Secretary, Industries.
532. Shri M. S. Gill, Registrar of Co-operative Societies.
533. Shri N. N. Khanna, Deputy Secretary, Planning.
534. Shri S. S. Parmar, Director of Industries.
535. Shri A. S. Sodhi, Deputy Registrar of Co-operative Societies (banking).
536. Shri B. L. Mohan, Managing Director, Punjab State Small Industries Corporation.
537. Shri L. R. Khosla, Officer on Special Duty, Department of Industries, Punjab.
538. Shri Sunder Singh, Managing Director, Punjab Financial Corporation.

Commercial Banks

539. Shri K. Subramanian, General Manager, State Bank of Patiala.
540. Shri H. Pathak, Chief Executive Officer, Bari Doab Bank Ltd., Hoshiarpur.
541. Shri Sohan Lal, Chairman, Sahukara Bank Ltd., Ludhiana.
542. Shri Jaya Prakash, Managing Director, Sahukara Bank Ltd., Ludhiana.

Co-operative Institutions

543. Shri Jasmat Singh Dhillon, Chairman, Punjab State Co-operative Bank Ltd., Patiala, Chandigarh.
544. Shri Gurcharan Singh, General Manager, Punjab State Co-operative Bank Ltd., Amritsar.
545. Shri Jagmohan Singh, Moga Central Co-operative Bank Ltd., Moga.
546. Shri Gurcharan Singh, Manager, Moga Central Co-operative Bank Ltd., Moga.
547. Shri Pritam Singh, Manager, Sangrur Central Co-operative Bank Ltd., Sangrur.
548. Shri Pritipal Singh, Primary Credit Society.
549. Shri Daljit Singh, Secretary, Punjab State Co-operative Land Mortgage Bank Ltd., Chandigarh.

550. Shri Hardayal Singh, Managing Director, Punjab S. C. Land Mortgage Bank Ltd., Chandigarh.
551. Shri Ginder Singh, Deputy General Manager, Punjab State Co-operative Bank Ltd., Chandigarh.
552. Shri O. P. Goel, Manager, Bhatinda Central Co-operative Bank Ltd., Bhatinda.
553. Shri Harchand Singh, Chairman, Sangrur Central Co-operative Bank Ltd., Sangrur.
554. Shri Asdev Singh, Deputy Registrar, Planning.

Industrial, Commercial and Other Bodies

555. Shri Kazan Chand, Partner, Swastik Cottage Industries. (Hosiery Manufacturers) and Ambassador Tape Manufacturing Co., Ludhiana.
556. Shri Lajpat Rai, Partner, Rita Mechanical Works, Ludhiana.
557. Shri Sardar Mohanjit Singh, President, Northern India Chamber of Commerce & Industry, Chandigarh.
558. Shri H. S. Balhaya, Northern India Chamber of Commerce & Industry, Chandigarh.
559. Shri Joginder Singh, Deputy Secretary, Northern India Chamber of Commerce & Industry, Chandigarh.

XI. HIMACHAL PRADESH

Government

560. Dr. Y. S. Parmar, Chief Minister.
561. Shri P. K. Mattoo, Secretary, Agriculture & Industries.
562. Shri R. V. Gupta, Registrar of Co-operative Societies.
563. Shri A. K. Chandra, Director, Planning.
564. Shri C. W. Mehta, Assistant Registrar of Co-operative Societies.
565. Shri J. N. Kaul, Technical Organiser, Industries Department.
566. Shri A. R. Chauhan, Agricultural Department.
567. Shri B. S. Jogi, Director of Agriculture.
568. Shri Swarupa Nand, Deputy Registrar of Co-operative Societies.
569. Shri Harbans Singh, Under Secretary (Budget).
570. Kumari Vimala Bhagat, Assistant Registrar of Co-operative Societies.

Co-operative Institutions

571. Shri Shri Ram, President, Himachal Pradesh State Co-operative Bank Ltd., Simla.
572. Shri V.L. Chandan, MLA, Director, Himachal Pradesh State Co-operative Bank Ltd., Simla.
573. Shri A. P. Jain, General Manager, Himachal Pradesh State Co-operative Bank Ltd., Simla.
574. Shri Gurdas Ram, Manager, Kangra Central Co-operative Bank Ltd.
575. Shri Mohanlal Sharma, President, Himachal Pradesh Land Mortgage Bank Ltd., Simla.
576. Shri Jia Lal, Manager, Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd., Simla.

577. Shri Mohanlal Sharma, President, Himachal Pradesh Land Mortgage Bank Ltd., Simla.

XII. MADHYA PRADESH

Government

578. Shri Shyama Charan Shukla, Chief Minister & Minister for Finance.
579. Shri Bhagwat Sabu, Minister for Food & Agriculture.
580. Shri Vasant Rao Uikey, Minister for Industries.
581. Shri K. N. Pradhan, Minister for Co-operation.
582. Shri R. P. Naik, Chief Secretary to the Government of Madhya Pradesh.
583. Shri M. S. Chaudhary, Additional Chief Secretary & Production Commissioner.
584. Shri R. N. Malhotra, Special Secretary, Finance & Planning.
585. Shri R. P. Mishra, Secretary, Agriculture & Co-operation.
586. Shri Devi Sahai, Secretary, Commerce & Industries.
587. Shri Manohar Keshav, Additional Secretary, Finance & Planning.
588. Shri K. C. S. Acharya, Additional Secretary, Revenue Department & Secretary to the Chief Minister.
589. Shri V. N. Rajagopalan, Deputy Secretary, Finance & Planning.
590. Shri R. L. Gargav, Deputy Secretary, Co-operation.
591. Shri R. P. Kapoor, Director of Agriculture.
592. Shri A. N. Verma, Registrar of Co-operative Societies.
593. Shri M. Bahl, Director of Industries.

Commercial Banks

594. Shri V. N. Nadkarni, General Manager, State Bank of Indore, Indore.

Co-operative Institutions

595. Shri K. P. Pande, Chairman, Madhya Pradesh State Co-operative Bank Ltd., Jabalpur.
596. Shri L. P. Bhargava, Vice-Chairman, Madhya Pradesh State Co-operative Bank Ltd., Jabalpur.
597. Shri G. S. Shukla, Managing Director, Madhya Pradesh State Co-operative Bank Ltd., Jabalpur.
598. Shri Anand Mangal Mishra, Chairman, Sagar District Co-operative Bank Ltd., Sagar.
599. Shri R. K. Jha, Chairman, Durg District Co-operative Bank Ltd., Durg.
600. Shri Ramsingh, Chairman, Bhopal Central Co-operative Bank Ltd., Bhopal.
601. Shri Chimanlal, Director, Morena Central Co-operative Bank Ltd., Morena.
602. Shri Shivshanker Patel, Chairman, Apex Land Development Bank Ltd.
603. Shri Bapusingh Mandloi, Chairman, Indore Premier Co-operative Bank Ltd., Indore.
604. Shri S. W. Urdhwareshe, Director, Indore Paraspara Sahakari Bank Ltd., Indore.
605. Shri S. S. Gadkari, Special Officer, Indore Paraspara Sahakari Bank Ltd., Indore.
606. Shri R. V. Khode, Chairman, Apex Weavers' Co-operative Society Ltd.,

Industrial, Commercial and Other Bodies

607. Shri R. K. Indoria, Vice-President, Bhopal Chamber of Commerce, Bhopal.
608. Shri Babu Lal Jain, Ex-President, Member, Bhopal Chamber of Commerce, Bhopal.
609. Shri Nanumal Jain, Member, Ex-President, Bhopal Chamber of Commerce, Bhopal.
610. Shri Lalla Bhai, President, Grain Merchants' Association.
611. Shri Basantkumar, President, Madhya Pradesh Anaj Tilhan Vyapar Mahasangh.
612. Shri P. Das Rathi, General Secretary, Madhya Pradesh Anaj Tilhan Vyapar Mahasangh.
613. Shri Uttamchand Godha, Joint Secretary, Madhya Pradesh Anaj Tilhan Vyapar Mahasangh.
614. Shri Ranjitbhai Vithalbhai, President, Madhya Pradesh, Organisation of Industries, Bhopal.
615. Shri H. L. Jain, Honorary Joint Secretary, Madhya Pradesh, Organisation of Industries, Bhopal.
616. Shri A. N. Patel, Committee Member, Madhya Pradesh Organisation of Industries, Bhopal.
617. Shri M. C. Jain, President, Madhya Pradesh Small Scale Industries Organisation, Bhopal.

XIII. RAJASTHAN

618. Sardar Hukam Singh, Governor.

Government

619. Shri Mohanlal Sukhadia, Chief Minister.
620. Shri M. D. Mathur, Finance Minister.
621. Shri Hardeo Joshi, Minister, Industries.
622. Shri Sobha Ram, Minister, Agriculture.
623. Shri Amrit Lal Yadav, Minister, Co-operation.
624. Shri Mohan Mukerjee, Finance Commissioner.
625. Shri S. P. Singh Bhandari, Agriculture & Co-operative Commissioner.
626. Shri K. S. Ujjawal, Registrar, Co-operative Societies.
627. Shri D. K. Saxena, Secretary, Industries.
628. Shri A. M. Lal, Special Secretary, Agriculture & Co-operation.
629. Shri K. M. Mehta, Director of Agriculture.
630. Shri M. L. Mathur, Deputy Secretary, Finance Department.
631. Shri V. C. Bhansali, Chief Accounts Officer, I/C (Treasuries).
632. Shri M. S. Sadasivan, Director of Industries.
633. Shri R. S. Kanjolia, Accounts Officer, Secretariat.

Commercial Banks

634. Shri C. P. Saigal, General Manager, State Bank of Bikaner & Jaipur, Jaipur.
635. Shri H. R. Aneja, Deputy Superintendent of Advances, State Bank of Bikaner & Jaipur, Jaipur.

636. Shri G. S. Das, Development Officer, State Bank of Bikaner & Jaipur, Jaipur.
637. Shri S. B. Chura, Development Officer (Expansion) State Bank of Bikaner & Jaipur, Jaipur.
638. Shri S. D. Mehra, Chairman, Bank of Rajasthan Ltd., Jaipur.
639. Shri J. S. Babel, General Manager, Bank of Rajasthan Ltd., Jaipur.

Co-operative Institutions

640. Shri Nathi Singh, President, Rajasthan State Co-operative Bank Ltd., Jaipur.
641. Shri M. P. Rajvanshy, General Manger, Rajasthan State Co-operative Bank Ltd., Jaipur.
642. Shri J. C. Siyal, Deputy Manager, Rajasthan State Co-operative Bank Ltd., Jaipur.
643. Shri K. B. L. Jaitley, Development Officer, Rajasthan State Co-operative Bank Ltd., Jaipur.
644. Shri Mahendra Shastri, President, Alwar Central Co-operative Bank Ltd., Alwar.
645. Shri Girdhar Singh, President, Bharatpur Central Co-operative Bank Ltd., Bharatpur.
646. Shri N. L. Sharma, Manager, Bharatpur Central Co-operative Bank Ltd., Bharatpur.
647. Shri Narain Chaturvedi, President, Rajasthan Rajya Land Development Bank Ltd., Jaipur.
648. Shri S. K. Mathur, General Manager, Rajasthan Rajya Land Development Bank Ltd., Jaipur.
649. Shri S. L. Soral, Director, Kota Central Co-operative Bank Ltd., Kota.
650. Shri P. C. Godha, Manager, Sawaimadhopur Central Co-operative Bank Ltd., Sawaimadhopur.
651. Shri N. K. Sethi, Manager, Central Co-operative Bank Ltd., Tonk.
652. Shri S. K. Sharma, Manager, Urban Co-operative Bank Ltd., Ajmer
653. Shri N. K. Khandelwal, Chairman, Rajasthan State Industrial Co-operative Bank Ltd., Jaipur.
654. Shri M. K. Sharma, General Manager —do—
655. Shri Pooran Singh, General Manager, Rajasthan Rajya Sahakari K. V. Sangh, Jaipur.
656. Shri Ratan Singh, President, Rodawal Gram Sewa Saha. Samiti, Bharatpur.
657. Shri R. C. Ludhadiya, Jt. Registrar of Co-op. Societies.
658. Shri Satish Chandra Mathur, Dy. Registrar (Industries), Co-op. Dept.

Industrial, Commercial and Other Bodies

659. Shri Khail Shanker Durlabhji, Vice-President, Rajasthan Chamber of Commerce & Industry and Jaipur Chamber of Commerce, Jaipur.
660. Shri Lalchand Kothari, } Rajasthan Chamber of Commerce & Industry
661. Shri Shri Rajroop Tank, } and Jaipur Chamber of Commerce, Jaipur.
662. Shri K. L. Jain, Honorary Secretary, -do-
663. Shri Lalbhai P. Patel, Joint Honorary Secretary, -do-

664. Shri A. L. Sharma, Member, Rajasthan Chamber of Commerce and Industry and Jaipur Chamber of Commerce, Jaipur,
665. Major Daulat Singh, Member, -do-
666. Shri F. B. Ilavia, Member, -do-
667. Shri Gangaram Khandelwal, Member, -do-
668. Shri Heera Chand Baid, Member, -do-
669. Shri K. C. Bakiwala, Member, -do-
670. Shri Kapibhai K. Shah, Member, -do-
671. Shri Krishna Jiwan Bhargava, Member, -do-
672. Shri M. K. Bhargava, Member, -do-
673. Shri Madan Mohan Kachwala, Member, -do-
674. Shri P. V. Zaveri, Member, -do-
675. Shri T. D. Khandelwal, Member, -do-
676. Shri V. N. Kak, Member, -do-
677. Shri G. L. Gupta, General Secretary, Jaipur Industrial Estate Association.
678. Shri B. L. Sarda, President, The Industrial Area Manufacturing Association, Jaipur.
679. Shri H. K. Khandelwal, M/s. Ashoka Wirenetting Industries, Jaipur.
680. Shri M. Sayeed Khan, Chairman, Jaipur City Small Industries Association, Jaipur.
681. Shri J. N. Gupta, Rajasthan Implements, Jaipur.
682. Shri Chandgilal Gupta, Rajasthan Iron & Steel Works, Jaipur.
683. Shri Hari Shanker, R. S. Brothers, Jaipur.
684. Shri U.A. Dag, Shree Amolak Iron & Steel Manufacturing Co.
685. Shri U. S. Goenka, Jaipur Bottling Company.
686. Shri D. M. Kariwala, Motilal Omprakash, Jaipur.
687. Shri J.M. L. Tambi, Honorary Secretary, Federation of Association of Small Industries of Rajasthan.

XIV. JAMMU & KASHMIR

688. Shri Bhagwan Sahay, Governor.

Government

689. Shri G. M. Sadiq, Chief Minister.
690. Shri G. L. Dogra, Finance Minister.
691. Shri A. G. Goni, Industries Minister.
692. Shri Chajju Ram, Minister of State for Agriculture.
693. Shri Sonam Wangyal, Minister of State for Co-operation.
694. Shri A. G. Mir, Deputy Minister for Horticulture.
695. Shri S. K. Sehgal, Commissioner, Planning & Development.
696. Shri Noor Mohammed, Secretary, Finance.
697. Shri G. R. Renzu, Secretary, Industries.
698. Shri Kesar, Additional Secretary, Planning.
699. Shri C. L. Pandit, Deputy Secretary, Revenue.
700. Shri W. S. Tambe, Director, Industries.
701. Shri D. N. Kotwal, Registrar of Co-operative Societies.
702. Shri H. S. Mann, Director, Agriculture.
703. Shri A. G. Malik, Director of Horticulture.
704. Shri B. K. Saraf, Deputy Secretary, Agriculture.

705. Shri Ghosh, Deputy Secretary, Planning.
706. Shri Sadhu, Resources Officer, Finance Department.

Commercial Banks

707. Shri A. A. Fazili, Chairman, Jammu & Kashmir Bank Ltd., Srinagar.
708. Shri K. P. Patel, General Manager, Jammu & Kashmir Bank Ltd., Srinagar.
709. Shri S. R. Kotwal, Secretary, Jammu & Kashmir Bank Ltd., Srinagar
710. Shri J. L. Khosa, P. A. to General Manager, Jammu & Kashmir Bank Ltd., Srinagar.

Co-operative Institutions

711. Shri G. M. Jalib, Chairman, Jammu & Kashmir State Co-operative Bank Ltd., Srinagar.
712. Shri G. R. Shah, Secretary, Jammu & Kashmir State Co-operative Bank Ltd., Srinagar.
713. Shri M. A. Shair, Director, Jammu & Kashmir State Co-operative Bank Ltd., and representing Jammu & Kashmir Handloom Fabrics Co-operative Marketing Society Ltd.
714. Shri A. K. Mattoo, General Manager, Jammu & Kashmir State Co-operative Bank Ltd., Srinagar.
715. Shri Saifuddin Dar, Honorary Secretary, Anantnag District Central Co-operative Bank Ltd., Anantnag.
716. Shri Ghulam Rasool Khan, Director Anantnag District Central Co-operative Bank Ltd., Anantnag.
717. Shri Abdul Razak Wagay, Director, -do-
718. Shri Abdul Majid, Director, -do-
719. Shri Ghulam Hassan Paray, Director, -do-
720. Shri Ghulam Nabi Kashoo, Director, -do-
721. Shri Haji Ghulam Ahmed Mir, Director, -do-
722. Shri R. K. Hak, Manager, -do-
723. Shri Ghulam Mohammad Khan, Chief Accountant, -do-
724. Shri Abdul Rehman, Executive Officer, -do-
725. Shri R. N. Kaul, Joint Registrar, Banking & Finance.
726. Shri Abdul Majid, Deputy Registrar, Co-operative Societies.

Industrial, Commercial and Other Bodies

727. Shri R. K. Sawhney, President, Kashmir Chamber of Commerce & Industry, Srinagar.
728. Shri P. N. Puri, Sr. Vice-President, Kashmir Chamber of Commerce & Industry, Srinagar.
729. Shri S. K. Kaul, Member, Executive Committee, Kashmir Chamber of Commerce & Industry, Srinagar.
730. Shri Vijay Dhar, Treasurer, Kashmir Chamber of Commerce & Industry, Srinagar.
731. Shri K. L. Kapoor, Member, Executive Committee, Kashmir Chamber of Commerce & Industry, Srinagar.

732. Shri S. N. Kaul, Member, Executive Committee, Kashmir Chamber of Commerce & Industry, Srinagar.
733. Shri P. N. Kaul, Member, Executive Committee, Kashmir Chamber of Commerce & Industry, Srinagar.
734. Shri D. S. Oberoi, Secretary General, Kashmir Chamber of Commerce & Industry, Srinagar.
735. Shri T. C. Anand, Member, Executive Committee, Kashmir Chamber of Commerce & Industry, Srinagar.
736. Shri K. L. Jain, President, Small Industralists' Association, Srinagar.
737. Shri A. A. Lone, Secretary, Small Industrialists' Association, Srinagar.

XV. GUJARAT

Government

738. Shri H. K. Desai, Chief Minister.
739. Shri J. N. Mehta, Finance Minister.
740. Shri L. R. Dalal, Chief Secretary.
741. Shri N. D. Buch, Agriculture Secretary.
742. Shri K. G. Badlani, Special Secretary, Agriculture & Co-operation Department.
743. Shri V. B. Eswaran, Finance Secretary.
744. Shri M. Sivagnanam, Industries Commissioner.
745. Shri R. H. Mehta, Planning Adviser.
746. Shri H. M. Joshi, Registrar of Co-operative Societies.
747. Shri M. G. Shah, Secretary, Civil Supplies Department.
748. Shri P. B. Buch, Director, Bureau of Economics & Statistics.
749. Shri T. K. Jayaraman, Deputy Secretary, Finance Department.

Commercial Banks

750. Shri B. K. Chatterjee, General Manager, State Bank of Saurashtra, Bhavnagar.
751. Shri P. M. Contractor, Manager, State Bank of Saurashtra, Ahmedabad.

Co-operative Institutions

752. Shri Maganbhai R. Patel, Chairman, Gujarat State Co-operative Bank Ltd., Ahmedabad.
753. Shri C. K. Patel, Managing Director, Gujarat State Co-operative Bank Ltd., Ahmedabad.
754. Shri C. C. Mehta, Manager, Gujarat State Co-operative Bank Ltd., Ahmedabad.
755. Shri M. M. Vyas, Assistant Manager, Gujarat State Co-operative Bank Ltd., Ahmedabad.
756. Shri J. M. Mulani, Chief Excecutive Officer, Gujarat State Co-operative Bank Ltd., Aymedabad.
757. Shri J. D. Jadhav, Publicity Officer, Gujarat State Co-operative Bank Ltd., Ahmedabad.
758. Shri N. J. Shukla, Secretary Gujarat State Co-operative Bank Ltd., Ahmedabad.

759. Shri Vithalbhai P. Amin, Chairman, Co-operative Bank of Ahmedabad Ltd., Ahmedabad.
760. Shri Prabhatsinghji B. Mahida, Chairman, Broach District Central Co-operative Bank Ltd., Broach.
761. Shri Raojibhai Patel, Manager, Sabarkantha District Central Co-operative Bank Ltd., Himatnagar.
762. Shri Dayaljibhai Patel, Chairman, Shri Dakshin Gujarat Sahakari Cotton Marketing Union Ltd.

Industrial, Commercial and Other Bodies

763. Shri Madhubhai M. Patel, President, Gujarat Chamber of Commerce & Industry (Gujarat Vepari Mahamandal), Ahmedabad.
764. Shri Rasiklal Vadilal Vasa, Gujarat Chamber of Commerce & Industry (Gujarat Vepari Mahamandal), Ahmedabad.
765. Shri Indravadan Pranlal Shah, -do-
766. Shri Champaklal P. Mehta, -do-
767. Shri Atmaram B. Sutaria, -do-
768. Dr. Biharilal Kanaiyalal, -do-
769. Shri Ratilal Panachand Parikh, -do-
770. Shri I. A. Modi, -do-
771. Shri B. H. Raval, -do-
772. Shri H. M. Talati, -do-
773. Shri B. M. Shukla, -do-
774. Shri L. V. Dani, -do-
775. Shri I.N. Kania, -do-
776. Shri R. M. Pradhan, -do-
777. Shri Anubhai Chimanlal, President, Panch Kuva Kapad Mahajan, Ahmedabad.
778. Shri Rasiklal Mohanlal, Honorary Secretary, -do-
779. Shri J. L. Bavishi, Secretary, -do-
780. Shri Hiralal H. Bhagvati, President, Maskati Cloth Market Association, Ahmedabad.
781. Shri Rasiklal Modi, Honorary Secretary, -do-
782. Shri Nareshchandra Mansukhrai, Member, -do-
783. Shri Kalyanbhai Trikamlal, Member, -do-
784. Shri Harigopal Bhatia, Member, -do-
785. Shri Chimanlal Dave, Secretary, -do-
786. Shri Gopaldas Shivlal Patel, President, Ahmedabad Grain Merchants' Association, Ahmedabad.
787. Shri Arvindbhai Saheba, Honorary Secretary, -do-
788. Shri Mahindra B. Oza, Joint Honorary Secretary, -do-
789. Shri Dahyabhai Chunilal Fadia, President, Gujarat Raj Vepari Sangh, Ahmedabad.
790. Shri Baldevbhai Dosabhai Patel, Vice-President, -do-
791. Shri G. K. Mehta, Secretary, -do-
792. Shri Pari Narayanbhai Lalbhai, President, Saraf Mahajan, Ahmedabad.
793. Shri Ambalal Chhotalal Parikh, Honorary Secretary, -do-
794. Shri Sitarambhai Tulsidas, Joint Honorary Secretary, -do-
795. Shri Ratilal Nathalal, President, Stock Exchange, Share & Stock Mahajan, Ahmedabad.

796. Shri Nareshchandra L. Parikh, Director, Stock Exchange, Share Stock Mahajan, Ahmedabad.
797. Shri Mahendrakumar Chandulal, Vice-President, -do-
798. Shri H. M. Bhatt, Executive Director, -do-
799. Shri J. C. Pandya, Secretary, -do-
800. Shri Kantilal Ghiya, Chairman, Gujarat State Co-operative Union, Ahmedabad.
801. Shri R. T. Popavala, Chairman, Gujarat Co-operative Industrial Bank Ltd., Ahmedabad.
802. Shri P. T. Munshaw, President, Ahmedabad Mill Owners' Association, Ahmedabad.
803. Shri Arvindbhai Narottambhai, Sr. Managing Committee Member, Ahmedabad Mill Owners' Association, Ahmedabad.
804. Shri Indravadan Pranlal, Managing Committee, Member -do-
805. Shri R. M. Dave, Secretary, -do-
806. Shri J. M. Mehta, Managing Director, Gujarat Small Industries Corporation Ltd., Ahmedabad.
807. Shri P. Narayanan, Financial Adviser & Chief Accounts Officer, Gujarat Small Industries Corporation Ltd., Ahmedabad.
808. Shri Bansilal Shah, Honorary Secretary, Federation of Small Scale Industries, Ahmedabad.
809. Shri Kalyanbhai Shah, Treasurer, -do-
810. Shri N. M. Raiji, Executive Secretary, -do-
811. Shri Nalin C. Shah, President, Ahmedabad Industrial Estate Factory Owners' Association, Ahmedabad.
812. Shri K. M. Jani, Secretary, -do-

XVI. WEST BENGAL

Government

813. Shri B. B. Ghosh, Principal Adviser.
814. Shri A. N. Kidwai, Adviser, Agriculture.
815. Shri N. C. Sen Gupta, Chief Secretary.
816. Shri J. L. Kundu, Financial Commissioner.
817. Shri B. C. Ganguly, Development Commissioner.
818. Shri S. Dutta-Majumdar, Town & Country Planning Commissioner.
819. Shri M. C. Mukherjee, Agricultural Commissioner.
820. Shri D. K. Guha, Secretary, Co-operation.
821. Shri B. S. Raghavan, Secretary, Commerce & Industries.
822. Shri N. K. Pal, Joint Secretary, Finance.
823. Shri N. Krishnamurthy, Registrar, Co-operative Societies.
824. Shri S. C. Bose, West Bengal Industrial Development Corporation.
825. Shri K. Lahiri, Managing Director, West Bengal Small Industries Corporation.

Commercial Banks

826. Shri B. K. Mookerjea, Custodian, Allahabad Bank, Calcutta.
827. Shri Longmate, Allahabad Bank, Calcutta.
828. Shri Thiruvenkatachari, Economist, Allahabad Bank, Calcutta.

829. Shri B. K. Dutt, Custodian, United Bank of India, Calcutta.
830. Shri T. R. Shah, Economist, United Bank of India, Calcutta.
831. Shri R. B. Shah, Custodian, United Commercial Bank, Calcutta.
832. Shri N. L. Chatterjee, United Industrial Bank Ltd., Calcutta.
833. Shri S. N. Mehrotra, Chairman, Hindustan Mercantile Bank Ltd., Calcutta.
834. Shri Devraj, Accountant, Hindustan Mercantile Bank Ltd., Calcutta.

Foreign Banks

835. Shri W. M. Bennett, General Manager, National & Grindlays Bank Ltd., Calcutta.
836. Shri R. J. Davies, Resident Vice-President, American Express International Banking Corporation, Calcutta.
837. Shri D. R. Chapman, The Chartered Bank, Calcutta.
838. Shri R. Gordon, The Chartered Bank, Calcutta.
839. Shri R. Stuart, Eastern Bank Ltd., Calcutta.
840. Shri Mathien, General Bank of the Netherlands, Calcutta.
841. Shri W. K. Dargie, The Hongkong and Shanghai Banking Corporation, Calcutta.
842. Shri K. K. Kogiso, Manager, Bank of Tokyo, Ltd., Calcutta.

Co-operative Institutions

843. Shri B. P. Hazra, Vice-Chairman, West Bengal State Co-operative Bank Ltd., Calcutta.
844. Shri A. C. Chowdhury, Manager, West Bengal State Co-operative Bank Ltd., Calcutta.
845. Shri Narendra Nath Sarkar, Chairman, Nadia District Central Co-operative Bank Ltd., Nadia.
846. Shri Nripendra Nath Banerjee, Secretary, -do-
847. Shri S. N. Banerjee, Manager, -do-
848. Shri Shyama Das Banerjee, Chairman, West Bengal State Handloom Co-operative Society, Calcutta.
849. Shri M. Banerjee, Director, Cooch-Behar Central Co-operative Bank Ltd., Cooch-Behar.
850. Shri A. K. Roy, Manager, Cooch-Behar Central Co-operative Bank Ltd.
851. Shri Arun Kumar Das, Gobrapota Samabaya Krishi Unnayan Samiti (Co-op. Agricultural Devpt. Society), Dist. Nadia.

Industrial, Commercial and Other Bodies

852. Shri S. Biswas, Bengal National Chamber of Commerce & Industry, Calcutta.
853. Shri T. Chakrabortty, -do-
854. Shri S. B. Tiwari, -do-
855. Shri M. K. Roy, -do-
856. Shri Milan Kumar Mookerjee, -do-
857. Shri A. R. Dutta Gupta, Secretary, -do-
858. Shri S. B. Dutt, -do-

859. Dr. B. N. Ghosh, Bengal National Chamber of Commerce & Industry, Calcutta.
860. Shri Milan Sen, -do-
861. Shri B. K. Swaika, -do-
862. Shri R. M. Mitter, -do-
863. Shri N. C. Mazumdar, -do-
864. Shri A. K. Sahu, Federation of Small & Medium Industries, Calcutta.
865. Shri S. Chakraborty, -do-
866. Shri S. K. Mitra, -do-
867. Shri Sudarshan Biswas, -do-
868. Shri Ajoy Roy, -do-
879. Shri S. N. Ghose, -do-
870. Shri B. D. Kanoria, President, Bharat Chamber of Commerce, Calcutta.
871. Shri R. R. Bhiwaniwalla Sr. Vice-President, -do-
872. Shri Shital Prasad Jain, Committee Member, -do-
873. Shri K. L. Dhandhania, Committee Member, -do-
874. Shri L. R. Dasgupta, Secretary, -do-
875. Shri R. K. Sen, Executive Officer, -do-
876. Shri Fordwood, President, Bengal Chamber of Commerce, Calcutta.
877. Shri D. P. Goenka, Bengal Chamber of Commerce, Calcutta.
878. Shri Paris, Secretary, -do-
879. Shri S. N. Dalmia, President, Merchants Chamber of Commerce, Calcutta.
880. Shri B. S. Kothari, Merchants Chamber of Commerce, Calcutta.
881. Shri B. L. Jaju, -do-
882. Shri P. D. Tulsyan, -do-
883. Shri P. S. Narayan, -do-
884. Shri H. R. Bose, Additional Secretary, -do-
885. Shri S. Chowdhury, Bengal Trades Association, Calcutta.
886. Shri H. Bhattacharya, -do-
887. Shri A. K. Mukherjee, -do-
888. Shri A. N. Banerjee, Secretary, -do-
889. Shri Tahir H. Chittiwala, President, Oriental Chamber of Commerce, Calcutta.
890. Shri Rusi B. Guin, Vice-President, -do-
891. Shri M. S. Salehjee, Secretary, -do-
892. Shri Q. M. M. Khan, Assistant Secretary, -do-
893. Shri G. V. Swaika, Oriental Chamber of Commerce, Calcutta.
894. Shri R. P. Goenka, President, Indian Chamber of Commerce, Calcutta.
895. Shri Sanjay Sen, Vice President, -do-
896. Shri A. K. Jain, Indian Chamber of Commerce, Calcutta.
897. Shri C. S. Pande, -do-
898. Shri S. P. Mehta, Chairman, Small Scale Industries Committee of All-India Manufacturers Organisation, Calcutta.
899. Shri Poddar, Small Scale Industries Committee of All-India Manufacturers Organisation, Calcutta.
900. Shri M. R. Roy, Managing Director, West Bengal State Financial Corporation, Calcutta.
901. Shri S. C. Basu, Managing Director, West Bengal Industrial Development Corporation, Calcutta.

902. Shri Swaran Singh, General Secretary, Federation of West Bengal Transport Operators, Calcutta.
903. Shri Hargobind Pandey, Howrah Lorry Association, Calcutta.
904. Shri B. B. Mukerjee, President, Howrah Lorry Owners' Association, Calcutta.
905. Shri Kali Jihan Chakravarty, General Secretary, Barasat Lorry Association, Calcutta.
906. Shri Narendra Chandra Chandra, Assistant Secretary, 24 Parganas Truck Association, Calcutta.
907. Shri Kalyan Bhadra, General Secretary, Bengal Taxi Association, Calcutta.
908. Shri Biren Deb, Office Secretary, -do-

XVII. BIHAR

909. Shri Deb Kant Barooah, Governor.

Government

910. Shri Karpoori Thakur, Chief Minister.
911. Shri Ravish Chandra Varma, Minister, Finance.
912. Shri Sahdeo Mahto, Minister, Co-operation.
913. Shri Kamaldeo Narain Sinha, Minister, Industries.
914. Shri Chandradeo Prasad Varma, Minister, Agriculture
915. Shri Dudhani, Minister of State for Finance.
916. Shri S. K. Chakrawartee, Vice-Chancellor, Agriculture University.
917. Shri Anwar Karim, Financial Commissioner.
918. Shri Harnandan Prasad, Secretary, Planning.
919. Shri Satchidanand Prasad, Secretary, Industries.
920. P. S. Kohli, Secretary, Co-operation.
921. Shri N. P. Mathur, Development Commissioner.
922. Shri N. K. P. Sinha, Director, Institutional Finance.
923. Dr. J. C. Kundra, Additional Secretary, Finance.
924. Shri S. P. Srivastava, Deputy Secretary Co-operation.

Co-operative Institutions

925. Shri Mathura Prasad Singh, Chairman, Bihar State Co-operative Bank Ltd., Patna.
926. Shri Ramdeo Singh, M. P., Director, -do-
927. Shri Thakur Jugal Kishore Singh, Director, -do-
928. Shri C. R. Venkataraman, Managing Director, -do-
929. Shri P. N. Srivastava, Secretary, -do-
930. Shri J. Charan, Deputy Secretary, -do-
931. Shri Dip Narain Sinha, Bihar Co-operative Federation.
932. Shri Singhasani Prasad, Executive Officer, Bihar Co-operative Federation.
933. Shri Amantali, Chairman, Ranchi-Khunti Co-operative Bank Ltd.
934. Shri Ram Prasad Singh, Director, Land Mortgage Bank Ltd., Patna.
935. Shri Janak Sinha, M.L.A., Secretary, Central Co-operative Bank Ltd., Muzaffarpur-Hajipur.
936. Shri Ayodhya Prasad, Honorary Secretary, Central Co-operative Bank, Ltd., Bihar-Barh-Fatwah.

937. Shri Narendra Kumar, Joint Honorary Secretary, Nawadah Central Co-operative Bank Ltd., Gaya.

Industrial, Commercial and Other Bodies

938. Shri K. N. Sahay, President, Bihar Chamber of Commerce, Patna.
939. Shri S. N. Kabra, Vice-President, -do-
940. Shri M. M. Jayaswal, Member, Executive Committee, -do-
941. Shri Hargobind Khaitan, Secretary General, -do-
942. Shri P. M. Paravatiyar, Treasurer, -do-
943. Shri Gaurishankar Dalmia, M.L.C., Chairman, Bihar Industries Association, Patna.
944. Shri U. P. Agarwal, Deputy Chairman, -do-
945. Dr. D. Jha, Industrial Consultant, Patna.
946. Shri C. M. Saxena, Honorary Secretary-cum-Treasurer, Bihar Organisation of Industrial Employees.
947. Shri Tajsingh Lakhmana, Lakhmana Rubber Industries, Adityapur, Jamshedpur.
948. Shri N. P. Jajodia, Chartered Accountant, C/o. Salarpuria Jajodia & Co. Fraser Road, Patna.
949. Shri B. P. Dhandhania, M/s. Shree Behariji Mills Ltd., Patna City.
950. Shri P. S. Kalsi, M/s. Allied Engineering Corporation, Patna.
951. Shri D. P. Saboo, Muzaffarpur Hosiery Industries & Agencies Pvt. Ltd., Patna.
952. Shri K. C. Bhargava, M/s. J. N. Singh & Co. Pvt. Ltd., Patna.
953. Shri K. P. Kayan, Hind Engineering Co., Uma Building, Fraser Road, Patna-1.
954. Shri Rasiklal Worah, President, Indian Colliery Owners' Association, Dhanbad.
955. Shri Madan Lal Baswatia, Senior Vice-President, -do-
956. Shri Parameshwarkumar Agerwalla, Junior Vice-President, -do-
957. Shri B. P. Doshi, Ex-President, Indian Coal Merchants' Association, Dhanbad.
958. Shri D. S. Thakkar, Ex-President, -do-
959. Shri A. R. Budhia, Past President, Chota Nagpur Chamber of Commerce, Ranchi.
960. Shri J. N. Agarwal, Member, -do-
961. Shri P. R. Bhimseria, North Bihar Chamber of Commerce and Industry, Muzzaparpur.
962. Shri N. C. Nagar, -do-
963. Shri G. P. Kejariwal, -do-

XVIII. UTTAR PRADESH

Government

964. Shri Kamlapati Tripathi, Chief Minister.
965. Shri Narain Dutt Tiwari, Finance Minister.
966. Dr. Sita Ram, Agriculture Minister.
967. Shri Lakshmi Shankar Yadav, Minister for Co-operation.
968. Shri Devki Nandan Vibhav, State Minister for Industries.

969. Shri Ashraf Ali Khan, State Minister for Co-operation.
970. Shri Bhagwant Singh, Agricultural Production Commissioner.
971. Shri Bharat Narain, Commissioner & Secretary, Finance.
972. Shri Gian Prakash, Secretary, Industries.
973. Shri S. K. Chaudhary, Secretary, Irrigation & Power.
974. Shri Tribhuwan Prasad, Secretary, Planning.
975. Shri R. N. Azad, Special Secretary, Cane, Co-operation & Animal Husbandry.
976. Shri S. V. Juneja, Special Secretary, Finance.
977. Shri G. K. Joshi, Joint Secretary, Agriculture.
978. Dr. T. G. K. Charlu, Director of Industries.
979. Shri Ram Krishan, Director of Agriculture.
980. Shri B. S. Sharma, Director, P.R.A.I.
981. Shri D.P. Octania, Director of Economics & Statistics.
982. Shri S. L. Shukla, Deputy Secretary, Finance.
983. Shri P. C. Srivastava, Deputy Secretary, (Cane & Co-operation).
984. Shri Shahzad Bahadur, Executive Engineer (Planning), Irrigation Department.
985. Shri Vimal Kumar Jain, Executive Engineer & P.A. (T.W.), Irrigation Department.
986. Shri R. Moin, Executive Engineer, (A) Irrigation Department,
987. Shri K.C. Jain, Research Officer, Finance.
988. Shri R. K. Bhargava, Managing Director, Uttar Pradesh Small Industries Corporation.
989. Shri N. S. Choudhry, Managing Director, -do-
990. Shri S. B. Saran, Registrar of Co-operative Societies.
991. Shri N. Misra, Additional Registrar of Co-operative Societies.
992. Shri R. K. Gupta, Deputy Secretary, Institutional Finance for Agriculture.
993. Shri R. B. Lal, Additional Registrar of Co-operatives.
994. Shri R. P. Mathur, Deputy Registrar (Banking) Co-operatives.
995. Shri G.P. Agrawal, Secretary-cum-Chief Accounts Officer, Uttar Pradesh State Industrial Corporation Ltd.

Commercial Banks

996. Shri D. N. Kapoor, Director, Bareilly Corporation (Bank) Ltd., Bareilly.
997. Shri K. K. Sharma, Loan Superintendent, Bareilly Corporation (Bank) Ltd., Bareilly.
998. Shri I. S. Sahgal, Manager, H. O., Hindustan Commercial Bank Ltd., Kanpur.
999. Shri R. Hariharan, Superintendent, Audit Inspection, -do-
1000. Shri S. N. Mehrotra, Chairman, Kashi Nath Seth Bank Pvt. Ltd., Shahjahanpur.
1001. Shri H. B. L. Seth, Agent, H. O., -do-

Co-operative Institutions

1002. Shri Mathura Singh, Chairman, Uttar Pradesh State Co-operative Bank Ltd., Lucknow.

1003. Shri D. S. Verma, Secretary, Uttar Pradesh State Co-operative Bank Ltd., Lucknow.
1004. Shri Trilok Chand, Deputy Secretary, -do-
1005. Shri Sheo Mangal Singh, Chairman, Uttar Pradesh Land Development Bank Ltd., Lucknow.
1006. Shri A. R. Khan, General Manager, -do-

Industrial, Commercial and Other Bodies

1007. Shri L. B. Tiwari, Chief Engineer, Uttar Pradesh State Electricity Board, Lucknow.
1008. Shri K. S. Bhatnagar, Additional Chief Accounts Officer, -do-
1009. Shri N. N. Dhawal, Accounts Officer, -do-
1010. Dr. G. H. Singhania, President, Merchants' Chamber of Uttar Pradesh, Kanpur.
1011. Shri S. Vaish, Past President, -do-
1012. Shri J. V. Krishnan, Secretary, -do-
1013. Shri B. P. Halwasiya, President, Avadh Chamber of Commerce & Industry, Lucknow.
1014. Shri Lajpat Rai Bajaj, Avadh Chamber of Commerce & Industry, Lucknow.
1015. Shri S. S. Singhal, -do-
1016. Shri B. K. Bhargava, -do-
1017. Shri Sarvottam Bhargava, -do-
1018. Shri Radha Ballabh, -do-
1019. Shri Lalchand Rastogi, -do-
1020. Shri R. Sahai, -do-
1021. Shri I. S. Gulati, -do-
1022. Shri K. C. Bhargava, -do-
1023. Shri Brahma Shankar, Joint Secretary, -do-
1024. Shri V. B. Dixit, Member, -do-
1025. Shri Sumar Chand Jain, Member, -do-
1026. Shri Radheysham Kapoor, President, Lucknow Merchant Association, Lucknow.
1027. Shri Krishna Gopal Kalambi, Lucknow Merchant Association,
1028. Shri Bhola Nath Khana, -do-
1029. Shri Damodar Dass Rastogi, -do-
1030. Shri Ram Manohar Gupta, Talkatara Industrial Estate Ltd., Lucknow.
1031. Shri Vidya Sagar Gupta, -do-

XIX—DELHI

Commercial Banks

1032. Shri S. C. Trikha, Custodian, Punjab National Bank, New Delhi.
1033. Shri S. Inderjit Singh, Chairman, Punjab & Sind Bank Ltd., Delhi.
1034. Shri Avtar Singh Bagga, General Manager, -do-
1035. Shri M. M. Mehra, Chairman, Oriental Bank of Commerce Ltd., Delhi.
1036. Shri T. R. Tuli, Chairman, New Bank of India Ltd., Delhi.
1037. Shri Ishar Singh Bajaj, Chairman, Lakshmi Commercial Bank Ltd., Delhi.

Industrial, Commercial and Other Bodies

1038. Shri S. S. Kanoria, President, Federation of Indian Chambers of Commerce & Industry, Delhi.
1039. Shri Madan Mohan Mangaldas, Vice-President, -do-
1040. Shri Ramnath A. Podar, Former President, -do-
1041. Shri G. L. Bansal, Secretary General, -do-
1042. Shri D. H. Pai Panandikar, Sr. Assistant Secretary, -do-
1043. Shri P. L. Tandon, Chairman, State Trading Corporation of India Ltd., New Delhi.
1044. Shri S. Boothalingam, Director General, National Council of Applied Economic Research, New Delhi.
1045. Shri I. Z. Bhatty, Director, -do-
1046. Dr. Bharat Ram, President, International Chamber of Commerce, New Delhi.
1047. Shri Ram Gopal Tiwari, President, National Co-operative Union, New Delhi.
1048. Shri A. H. Patel, Joint Director, -do-
1049. Shri K. N. Bhutani, Director, Institute of Applied Man Power Research, New Delhi.
1050. Shri Vithal Babu, Deputy Director, Institute of Foreign Trade, New Delhi.

XX. BOMBAY AND PUNE

(Including the Government of Maharashtra and other institutions in Maharashtra State)

Government

1051. Shri Vasantrao P. Naik, Chief Minister,
1052. Shri S. K. Wankhede, Minister, Finance
1053. Shri Y. J. Mohite, Minister, Co-operation
1054. Shri R. A. Patil, Minister, Industries
1055. Shri P. K. Sawant, Minister, Agriculture
1056. Shri S. B. Chavan, Minister, Irrigation, Power and State Transport.
1057. Shri N. G. Abhyankar, Development Commissioner and Secretary, General Administration Dept.
1058. Shri S. V. Bhave, Secretary, Industries & Labour Department.
1059. Shri D. Ramachandra Rao, Secretary, Finance.
1060. Dr. A. U. Shaikh, Secretary, Co-operation.
1061. Shri S. E. Sukhtankar, Secretary, Agriculture.
1062. Dr. K. G. Joshi, Director of Agriculture.
1063. Shri S. B. Kulkarni, Industries Commissioner.
1064. Shri N. R. Ranganathan, Deputy Secretary, Industries & Labour Department.
1065. Shri S. H. Thacker, Deputy Secretary, Agriculture & Co-operation Department.
1066. Shri B. D. Joshi, Deputy Secretary, Finance.
1067. Shri R. A. Zubairy, Registrar of Co-operative Societies.
1068. Shri K. Padmanabhaiah, Joint Registrar, Co-operative Societies.

Commercial Banks with headquarters outside Bombay

1069. Shri C. V. Joag, Custodian, Bank of Maharashtra, Pune.
1070. Shri M. V. Kulkarni, Secretary, Bank of Maharashtra, Pune.
1071. Shri V. S. Damle, Chairman, United Western Bank Ltd., Satara.
1072. Shri M. V. Khandkar, Chairman, Bank of Karad Ltd., Karad.
1073. Shri M. K. Gupte, General Manager, Sangli Bank Ltd., Sangli.
1074. Shri A. P. Patil, In-charge Manager, Ratnakar Bank Ltd., Kolhapur.
1075. Shri K. D. Shiralkar, Manager, Miraj State Bank Ltd., Miraj.

Co-operative Banks

1076. Shri Vasantrao B. Patil, Chairman, Maharashtra State Co-operative Bank Ltd., Bombay.
1077. Shri V. M. Joglekar, Managing Director, -do-
1078. Shri L. Y. Lagu, Manager, Sangli Urban Co-operative Bank Ltd., Sangli.
1079. Shri Pathak, Manager, Dhulia, Urban Co-operative Bank Ltd., Dhulia.
1080. Shri Z. G. Rangoonwala, Managing Director, Bombay Mercantile Co-operative Bank Ltd., Bombay.
1081. Shri Huseini S. Doctor, Director, -do-
1082. Shri Y.A. Merchant, Administrative Officer, -do-
1083. Shri R. I. Rangachari, Chief Accountant, -do-
1084. Shri V. P. Pandit, Chairman, Saraswat Co-operative Bank Ltd., Bombay.
1085. Prof. L. G. Khedekar, Vice-Chairman, -do-
1086. Shri S. V. Sanzgiri, Secretary -do-
1087. Shri M. M. Rajadhyaksha, Member, -do-
1088. Shri N. R. Warerkar, Acting Secretary, -do-
1089. Shri P. K. Shetye (M. L. C.) Chairman, Ratnagiri District Central Co-operative Bank Ltd., Ratnagiri.
1090. Shri M. K. Shirke, Director, -do-
1091. Shri B. G. More, Director, -do-
1092. Shri M. C. Sakhalkar, Manager, Ratnagiri District Central Co-operative Bank Ltd., Ratnagiri.
1093. Shri G. S. Mankar, M. L.A., Vice-Chairman, Aurangabad District Central Co-operative Bank Ltd., Aurangabad.
1094. Shri Vishnu Patil, Director, -do-
1095. Shri Ramarao Patil, Director, -do-
1096. Shri P. D. Pathak, Manager, -do-
1097. Shri Raja Mantri, Director, Jalgaon District Central Co-operative Bank Ltd., Jalgaon.
1098. Shri D. T. Gajare, Director, -do-
1099. Shri D. S. Jamadagni, Managing Director, Janata Sahakari Bank Ltd., Pune.
1100. Shri B. G. Thakar, Vice-Chairman, -do-
1101. Shri A. K. Phadke, Director, -do-
1102. Shri S. M. Satkar, Chairman, Poona District Central Co-operative Bank, Ltd., Pune
1103. Shri D. L. Parkhi, Vice-Chairman, -do-
1104. Shri D. B. Tupe, Director, -do-
1105. Shri N. S. Mohol, Director, -do-

1106. Shri S. M. Shivtare, Director, Poona District Central Co-operative Bank Ltd., Pune.
1107. Shri V. S. Deshmukh, Director, -do-
1108. Shri V. R. Kotwal, Director, -do-
1109. Shri S. M. Kale, Director, -do-
1110. Shri D. H. Jadhav, Director, -do-
1111. Shri K. S. Temgire, Director, -do-
1112. Shri V. D. Shelke, Director, -do-
1113. Shri G. G. Gosavi, Director, -do-
1114. Shri N. K. Sathe, Director, -do-
1115. Dr. D. B. Kadam, Managing Director, -do-
1116. Shri V. C. Garud, Manager, -do-

Foreign Banks

1117. Shri R. L. Davidson, Vice President, First National City Bank, Bombay.
1118. Shri R. Morrison, Manager, Bank of America, Bombay.
1119. Shri Y. M. I. Guillet De La Brosse, Manager, Banque Nationale de Paris, Bombay.
1120. Shri Kazuyoshi Ohashi, Manager, Mitsui Bank Ltd., Bombay.
1121. Shri F. N. Tucker, Head of Merchant Banking Operations, National & Grindlays Bank Ltd., Bombay
1122. Shri S. Sengupta, Merchant Banking Division, -do-

Industrial, Commercial & Other Bodies

1123. Shri R. G. Gandhi, President, Builders' Association of India, Bombay.
1124. Shri G. P. Tonani, Member, -do-
1125. Shri L. Mekhrani, Member, -do-
1126. Shri R. N. Choksi, Member, -do-
1127. Shri R. S. Desai, Secretary, -do-
1128. Shri K. P. Fadia, Director, Fadia & Jalal & Co., Bombay.
1129. Shri S. P. Godrej, President, Indian Merchants' Chamber, Bombay.
1130. Shri Harish Mahindra, Vice President -do-
1131. Shri Dhirajlal Maganlal, Indian Merchants' Chamber, Bombay.
1132. Shri Devjee Rattansey, -do-
1133. Shri C. L. Gheevala, Secretary, -do-
1134. Shri M. K. Desai, Deputy Secretary, -do-
1135. Shri G. G. Kamat, Chairman, Bombay Co-operative Housing Federation Ltd., Bombay.
1136. Shri Ekbote, Chief Executive Officer, -do-
1137. Shri B. Rudramurthy, Managing Director, Agricultural Finance Corporation, Bombay.
1138. Shri V. K. Sheth, Secretary, -do-
1139. Shri S. K. Somayya, President, Indian Sugar Mills Association.
1140. Shri R. P. Nevatia, Committee Member, -do-
1141. Shri M. L. Apte, Committee Member, -do-
1142. Shri R. Venkataraman, Secretary, -do-
1143. Shri Dholakia of Godavari Sugar Mills, -do-
1144. Shri M. P. Chitale, Vice-President, Maharashtra Chamber of Commerce, Bombay.

1145. Shri N. N. Pai, Maharashtra Chamber of Commerce, Bombay.
1146. Shri D. C. Bilimoria, -do-
1147. Shri C. S. Shah, -do-
1148. Shri S. S. Gaitonde, -do-
1149. Shri C. P. Shah, -do-
1150. Shri V. R. Gokhale, Assistant Secretary, -do-
1151. Shri Jayantilal M. Shah, -do-
1152. Shri Chandrakant P. Jerajani, -do-
1153. Shri Mohanlal A. Parekh, -do-
1154. Shri B. R. Mohatta, -do-
1155. Shri G. B. Newalkar, Chairman, Maharashtra State Small Scale Industrial Development Corporation, Bombay.
1156. Shri M. S. Parkhe, President, Maharatta Chamber of Commerce and Industry, Pune.
1157. Shri A. R. Bhat, Honorary Secretary, -do-
1158. Shri V. M. Deval, Maharashtra Chamber of Commerce & Industry, Pune.
1159. Shri R. H. Pandit, -do-
1160. Shri P. N. Varde, -do-
1161. Shri M. S. Vartak, -do-
1162. Shri M. K. Soman, -do-
1163. Shri N. K. Firodiya, -do-
1164. Shri M. G. Sathe, -do-
1165. Shri S. P. Khosla, -do-
1166. Shri L. J. Rathi, -do-
1167. Shri M. V. Mantri, -do-
1168. Shri D. G. Shembekar, -do-
1169. Shri S. P. Kanhere, -do-
1170. Shri V. B. Salunke, -do-
1171. Shri A. G. Ogale, -do-
1172. Shri S. H. Paranjpe, -do-
1173. Shri T. D. Joshi, -do-
1174. Shri V. M. Savlapurkar, -do-
1175. Shri Uttamchand Pokarna, -do-
1176. Shri P. G. Hegde, -do-
1177. Shri V. L. Gawadia, -do-
1178. Shri B.D. Sancheti, -do-
1179. Shri R. P. Oka, -do-
1180. Shri V. M. Oka, -do-
1181. Shri G. K. Paranjpe, -do-
1182. Shri B. D. Garware, Chairman, Maharashtra State Financial Corporation, Bombay.
1183. Shri V. D. Thakkar, Joint General Manager, Bank of Baroda and Chairman of the Committee on Banks' Credit Schemes with reference to Employment Potential.
1184. Shri B. K. Vora, Deputy General Manager, Punjab National Bank, New Delhi.
1185. Shri J. C. Adya, Chief Development Officer, -do-
1186. Shri P. L. Badami, Honorary Secretary, All-India Manufacturers' Organisation, Bombay.
1187. Shri S. G. Shah, Secretary, Indian Banks' Association, Bombay.

1188. Shri D. P. Chadha, President, All-India Bank Employees Association, Bombay.
1189. Shri K. K. Mundul, Vice President, -do-
1190. Shri Prabhat Kar, General Secretary, -do-
1191. Shri N. S. Purao, Central Committee Member, -do-

Training Institutions

1192. Shri H. L. Bedi, Principal, Bank of Baroda & Bank of India Training College, Bombay.
1193. Dr. S. B. Mahabal, Director, Vaikunth Mehta National Institute of Co-operative Management, Pune.
1194. Prof. D. Jha, Director, -do-
1195. Prof. S. B. Rao, Director, -do-
1196. Dr. M. V. Namjoshi, Vaikunth Mehta National Institute of Co-operative Management, Pune.
1197. Shri Y. K. Bhushan, -do-
1198. Dr. G. S. Kamat, -do-
1199. Shri K. K. Taimni, -do-
1200. Shri K. R. Padmanabhan, -do-
1201. Shri D. R. Datar, -do-
1202. Dr. R. C. Bhatnagar, -do-
1203. Shri P. G. Koranne, -do-
1204. Shri A. D. Puranik, -do-
1205. Shri S. A. Desai, -do-
1206. Shri S. Sivaprakasam, -do-
1207. Shri C. Dinesh, -do-
1208. Shri M. B. Patil, -do-
1209. Shri A. R. Sapre, -do-
1210. Shri Y. C. Devdhar, -do-
1211. Shri V. Malayadri, -do-
1212. Shri S. V. Khare, -do-
1213. Shri R. T. Doshi, -do-
1214. Shri R. A. Sugavanam, Faculty Member of Co-operative Bankers' Training College, Pune.
1215. Shri N. H. Bhatt, Co-operative Bankers' Training College, Pune.
1216. Shri Kalia, -do-
1217. Shri G. Rebello, -do-
1218. Shri R. S. Agarwal, -do-
1219. Shri P. E. John, -do-
1220. Shri V. V. Bapat, -do-
1221. Shri M. Natarajan, -do-
1222. Shri K. V. Rao, -do-
1223. Dr. N. C. Mehta, Director, National Institute of Bank Management, Bombay.
1224. Prof. R. Bandyopadhyay, National Institute of Bank Management, Bombay.
1225. Prof. S. S. Kulkarni, -do-
1226. Prof. M. C. Madhavan, -do-
1227. Prof. R. K. Patil, -do-
1228. Dr. S. D. Varde, -do-
1229. Dr. A. K. Banerji, Principal, Bankers Training College, Bombay.

1230. Shri C. S. Subramaniam, Bankers Training College, Bombay.
1231. Shri B. K. Sircar, Manager, Training, Reserve Bank of India, Bombay.
1232. Shri B. D. Kasbekar, Principal, Central Bank of India Training College, Bombay.

Other Banking and Financial Institutions

1233. Shri R. K. Talwar, Chairman, State Bank of India, Bombay.
1234. Shri B. N. Adarkar, Custodian, Central Bank of India, Bombay.
1235. Shri J. N. Saxena, Custodian, Bank of India, Bombay.
1236. Shri M. G. Parikh, Custodian, Bank of Baroda, Bombay.
1237. Shri R. A. Gulmohamed, Custodian, Dena Bank, Bombay.
1238. Shri D. M. Parekh, Assistant General Manager & Chief Accountant, Dena Bank, Bombay.
1239. Shri P. A. Viswanathan, Economist, Dena Bank.
1240. Shri P. F. Gutta, Custodian, Union Bank of India, Bombay.
1241. Shri T. A. Pai, Chairman, Life Insurance Corporation of India, Bombay.

XXI. OFFICERS OF THE GOVERNMENT AND RESERVE BANK OF INDIA FUNCTIONING AS DIRECTORS ON THE NATIONALISED BANKS

1242. Shri P. D. Kasbekar (Government)—Bank of India.
1243. Shri A. Raman (R. B. I.)—Bank of India.
1244. Shri V. M. Bhide (Government)—Central Bank of India.
1245. Shri M. Narasimham (R. B. I.)—Central Bank of India.
1246. Shri D. N. Ghosh (Government)—United Bank of India
1247. Shri Ghulam Ghouse (R. B. I.)—United Bank of India.
1248. Shri S. M. Kelkar (Government)—Dena Bank.
1249. Shri V. V. Divatia (R. B. I.)—Dena Bank.
1250. Shri N. Sethuraman (Government)—Allahabad Bank.
1251. Shri T. Tiwari (R. B. I.)—Allahabad Bank.
1252. Dr. H. B. Shivamaggi (R. B. I.)—Bank of Maharashtra.
1253. Shri M. G. Balasubramanian (Government)—Indian Bank and Indian Overseas Bank.
1254. Shri M. K. Venkatachalam (Government)—Syndicate Bank and Canara Bank.
1255. Shri K. N. R. Ramanujam (R. B. I.)—Canara Bank.
1256. Shri K. S. Chakrapani (R. B. I.)—Indian Bank.
1257. Dr. Ashok Mitra (Government)—United Commercial Bank.
1258. Kum. N. K. Ambegaokar (R. B. I.)—United Commercial Bank.
1259. Shri P. K. Kaul (Government)—Union Bank of India.
1260. Shri D. P. Gupta (R. B. I.)—Union Bank of India.
1261. Dr. C. D. Datey (R. B. I.)—Bank of Baroda.
1262. Shri A. K. Dutt (Government)—Bank of Baroda.
1263. Shri V. M. Jakhade (R. B. I.)—Punjab National Bank.

XXII. ECONOMISTS & EXPERTS

(Arranged in the chronological order of meeting them)

1264. Dr. P. S. Lokanathan, Madras-15.
1265. Dr. V. Shanmugasundaram, University of Madras, Madras-15.

1266. Dr. Gautam Mathur, Osmania University, Hyderabad.
1267. Dr. A. Nagaraj, Osmania University, Hyderabad.
1268. Dr. Yadava Reddy, Osmania University, Hyderabad.
1269. Dr. M. Nagaraja Rao, Osmania University, Hyderabad.
1270. Dr. A. Sarveswara Rao, Andhra University, Waltair.
1271. Dr. S. Misra, Vice-Chancellor, Utkal University, Cuttack.
1272. Dr. Vidyadar Misra, Professor of Agricultural Economics, Utkal University, Cuttack.
1273. Prof. S. Sarangapani, University of Gauhati, Gauhati.
1274. Dr. T. M. A. Pai, Manipal.
1275. Prof. S. B. Rangnekar, Punjab University, Chandigarh.
1276. Shri J. S. Ahluwalia, Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Bombay.
1277. Dr. V. V. Bhatt, Adviser, Economic Department, Reserve Bank of India, Bombay.
1278. Dr. J. N. Bhan, Vice-Chancellor, University of Jammu, Jammu.
1279. Dr. C. Rangarajan, Indian Institute of Management, Ahmedabad.
1280. Prof. B. G. Shah, -do-
1281. Prof. Ishwar Dayal, -do-
1282. Prof. Alak Ghosh, University of Calcutta, Calcutta.
1283. Dr. A. K. Bagchi, Presidency College, Calcutta.
1284. Dr. M. K. Rakshit, Presidency College, Calcutta.
1285. Prof. Ambika Ghosh, Jadhavpur University, Jadhavpur.
1286. Dr. Subratesh Ghosh, Jadhavpur University, Jadhavpur.
1287. Shri B. T. Thakur, Retired Banker, Calcutta.
1288. Shri Maheshwari, Texmaco, Calcutta.
1289. Shri Pravinchandra Gandhi, Ex-Custodian, Dena Bank, Bombay.
1290. Shri V. C. Patel, Ex-Custodian, Central Bank of India, Bombay.
1291. Shri F. K. F. Nariman, Ex-Custodian, Union Bank of India, Bombay.
1292. Shri T. D. Kansara, Ex-Custodian, Bank of India, Bombay.
1293. Dr. D. T. Lakdawala, Director, Sardar Patel Institute of Economics and Social Research, Ahmedabad.
1294. Shri S. N. Sen Gupta, Secretary, Indian Institute of Bankers, Bombay.
1295. Shri B. Venkatappiah, Member, Planning Commission.
1296. Dr. Pradhan H. Prasad, A. N. S. Institute of Social Studies, Patna.
1297. Shri G. R. Kamat, Chairman, Advisory Board, National and Grindlays Bank Ltd., New Delhi.
1298. Prof. A. M. Khusro, Director, Institute of Economic Growth, Delhi.
1299. Shri N. S. Siddharthan, Institute of Economic Growth, Delhi.
1300. Shri Manubhai Shah, Member of Parliament.
1301. Dr. Baljit Singh, Lucknow University, Lucknow.
1302. Prof. P. R. Brahmananda, University of Bombay, Bombay.
1303. Prof. M. L. Dantwala, University of Bombay, Bombay.
1304. Shri G. P. Kapadia, Past President, Institute of Chartered Accountants, Bombay.
1305. Prof. V. M. Dandekar, Director, Gokhale Institute of Economics & Politics, Pune.
1306. Shri James S. Raj, Managing Director, Industrial Investment Trust Ltd., Bombay.
1307. Prof. C. N. Vakil, Bombay.

1308. Shri K. S. V. Raman, Chairman, State Bank of India Recruitment Board, Patna.
1309. Shri L. D'Mello, Chief of Economic Department, State Bank of India.
1310. Shri A. C. Shah, Chief of Economic Department, Bank of Baroda.
1311. Dr. V. T. Mathews, Chief of Economic Department, Bank of India.

XXIII. RESERVE BANK OF INDIA

1312. Shri S. Jagannathan, Governor.
1313. Shri P. N. Damry, Deputy Governor.
1314. Shri R. K. Hazari, Deputy Governor.
1315. Shri S. S. Shiralkar, Deputy Governor.
1316. Shri V. V. Chari, Deputy Governor.
1317. Shri R. K. Seshadri, Executive Director.

XXIV. GOVERNMENT OF INDIA

1318. Shri Y. B. Chavan, Minister for Finance.
1319. Shri A. Baksi, Secretary to the Government of India, Ministry of Finance, Department of Banking.
1320. Dr. I. G. Patel, Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.
1321. Shri V. M. Bhide, Additional Secretary to the Government of India, Ministry of Finance, Department of Banking.

APPENDIX VII

PERSONS AND INSTITUTIONS WHO SUBMITTED MEMORANDA OR NOTES TO THE COMMISSION

(*i*) *Andhra Pradesh*

1. Andhra Bank Ltd., Hyderabad.
2. Tirupathi Urban Co-operative Bank Ltd., Tirupathi.
3. Federation of Andhra Pradesh Chambers of Commerce & Industry, Hyderabad.
4. Andhra Pradesh Plastics Manufacturers' Association, Hyderabad.
5. Andhra Pradesh Small Scale Industries Association, Visakhapatnam.
6. Some Small Scale Industrialists in Visakhapatnam.
7. Andhra Co-operative Spinning Mills Ltd., Guntakal.
8. Girijan Co-operative Development Corporation Ltd., Visakhapatnam.

(*ii*) *Assam*

9. Assam Chamber of Commerce, Shillong.

(*iii*) *Bihar*

10. Government of Bihar, Patna.
11. Bihar State Co-operative Bank Ltd., Patna.
12. Bihar Chamber of Commerce, Patna.
13. Indian Coal Merchants Association, Dhanbad.

(*iv*) *Delhi*

14. Federation of Indian Chambers of Commerce & Industry, New Delhi.
15. Shri R. G. Tiwari, President, National Co-operative Union of India, New Delhi.

(*v*) *Gujarat*

16. Government of Gujarat, Ahmedabad.
17. Gujarat State Co-operative Bank Ltd., Ahmedabad.
18. Shri B. K. Chatterjee, General Manager, State Bank of Saurashtra, Bhavnagar.
19. Gujarat Chamber of Commerce & Industry, Ahmedabad.
20. Nawanagar Chamber of Commerce, Jamnagar.
21. Small Industries Federation, Ahmedabad.
22. Ahmedabad Millowners' Association, Ahmedabad.
23. Ahmedabad Share & Stock Mahajan, Ahmedabad.
24. Ahmedabad Shroffs Association, Ahmedabad.
25. Maskati Cloth Market Association, Ahmedabad.

(*vi*) *Haryana*

26. Northern India Chamber of Commerce & Industry, Chandigarh.
27. Haryana Chamber of Commerce & Industry, Ambala.

(*vii*) *Jammu & Kashmir*

28. Small Scale Industrialists Association, Srinagar.

(*viii*) *Kerala*

29. Government of Kerala, Trivandrum.
30. Lord Krishna Bank Ltd., Cranganore.
31. Indian Chamber of Commerce, Cochin.
32. Coir Board, Cochin-16.
33. Shri K. P. Hormis, Chairman, Federal Bank Ltd., Alwaye.

(*ix*) *Madhya Pradesh*

34. Government of Madhya Pradesh, Bhopal.
35. Madhya Pradesh Anajtilhan Vyapari Mahasangh, Bhopal.

(*x*) *Maharashtra*

36. Shri H. L. Bedi, Principal, Bank of India & Bank of Baroda Staff Training College, Bombay.
37. Shri B. D. Garware, Chairman, Maharashtra State Financial Corporation, Bombay.
38. Shri V. S. Damle, Chairman, United Western Bank Ltd., Satara.
39. Agricultural Finance Corporation Ltd., Bombay.
40. Shri S. G. Shah, Secretary, Indian Banks' Association, Bombay.
41. Indian Merchants' Chamber, Bombay.
42. All-India Manufacturers' Organisation, Bombay.
43. Builders' Association of India, Bombay.
44. Tayabi Bucket Factory, Bombay-3.
45. Prof. P. R. Brahmananda, Department of Economics, University of Bombay, Bombay.
46. Shri G. P. Kapadia, Chartered Accountant, Bombay.
47. Shri V. P. Varde, Matru Smriti, 298, Off Turner Road, Bombay-50.

(*xi*) *Meghalaya*

48. Government of Meghalaya, Shillong.

(*xii*) *Mysore*

49. Shri K. K. Pai, Custodian, Syndicate Bank, Manipal.
50. Shri M. L. Gopala Shetty, Member, Managing Committee of Mysore Chamber of Commerce & Industry and President, Mysore Shareholders Association, Bangalore.
51. Kanara Chamber of Commerce & Industry, Mangalore.
52. Mysore State Industrial Co-operative Bank Ltd., Bangalore.
53. All Mysore Small Scale Industries Association, Bangalore.
54. Mysore Handicrafts Artisans Co-operative Society Ltd., Bangalore.

(*xiii*) *Nagaland*

55. Nagaland State Co-operative Bank Ltd., Dimapur.

(*xiv*) *Orissa*

56. Orissa State Co-operative Bank Ltd., Cuttack.
57. United Puri-Nimapara Central Co-operative Bank Ltd., Puri.
58. Orissa Chamber of Commerce & Industry, Cuttack.

(*xv*) *Rajasthan*

59. Government of Rajasthan, Jaipur.
60. Rajasthan Chamber of Commerce & Industry, Jaipur.
61. Federation of Association of Small Industries of Rajasthan, Jaipur.
62. Shri Lalchand Kothari, Bikaner.
63. Dr. Harish C. Sharma, University of Rajasthan, Jaipur.

(*xvi*) *Tamil Nadu*

64. Government of Tamil Nadu, Madras.
65. Karur Vysya Bank Ltd., Karur.
66. Southern India Millowners' Association, Coimbatore.
67. United Planters' Association of Southern India, Coonoor.
68. Tanners & Leather Traders' Association, Madras.

(*xvii*) *Uttar Pradesh*

69. Government of Uttar Pradesh, Lucknow.
70. Bareilly Corporation Bank Ltd., Bareilly.
71. Shri I. D. Kapur, Chairman, Nainital Bank Ltd., Nainital.
72. Merchants' Chamber of Uttar Pradesh, Kanpur.
73. Lucknow Merchants' Association, Lucknow.

(*xviii*) *West Bengal*

74. Bengal National Chamber of Commerce & Industry, Calcutta.
75. Federation of Small & Medium Industries, West Bengal, Calcutta.
76. Bharat Chamber of Commerce, Calcutta.
77. Merchants' Chamber of Commerce, Calcutta.
78. Oriental Chamber of Commerce, Calcutta.
79. Bengal Chamber of Commerce & Industry, Calcutta.
80. Federation of West Bengal Transport Operators, Calcutta.
81. Bengal Taxi Association, Calcutta.
82. Small Industries Committee of the All-India Manufacturers' Organisation, Calcutta.
83. Bengal Trades Association, Calcutta.
84. Indian Sugar Mills' Association, Calcutta.
85. Shri B.T. Thakur, Chairman, Hindustan Motor Corporation Ltd., Calcutta-1.

APPENDIX VIII

NUMBER OF GOVERNMENTS OF STATES AND UNION TERRITORIES, BANKS AND OTHER INSTITUTIONS TO WHOM THE QUESTIONNAIRES WERE SENT BY THE COMMISSION AND A LIST OF THOSE WHO RESPONDED

I. GOVERNMENTS OF STATES AND UNION TERRITORIES

(*a*) Total number of Governments to whom the questionnaires were sent 26

(*b*) Replies were received from the following Governments :

1. Andhra Pradesh
2. Bihar
3. Gujarat
4. Haryana
5. Jammu & Kashmir
6. Kerala
7. Madhya Pradesh
8. Maharashtra
9. Mysore
10. Orissa
11. Rajasthan
12. Tamil Nadu
13. Uttar Pradesh
14. West Bengal
15. Andaman & Nicobar Islands
16. Delhi
17. Goa, Daman & Diu
18. Himachal Pradesh
19. Pondicherry
20. Tripura

II. COMMERCIAL BANKS

(*a*) Total number of banks to whom the questionnaires were sent

(*b*) Replies were received from the following banks :

Scheduled Banks

1. Allahabad Bank
2. American Express International Banking Corporation.
3. Andhra Bank Ltd.
4. Bank of America
5. Bank of Baroda
6. Bank of India
7. Bank of Karad Ltd.
8. Bank of Madura Ltd.

9. Bank of Maharashtra
10. Bank of Tokyo
11. Banque Nationale de Paris
12. Bareilly Corporation (Bank) Ltd.
13. Belgaum Bank Ltd.
14. Benares State Bank Ltd.
15. British Bank of the Middle East
16. Canara Bank
17. Canara Banking Corporation Ltd.
18. Central Bank of India
19. Chartered Bank
20. Dena Bank
21. Eastern Bank Ltd.
22. First National City Bank
23. General Bank of the Netherlands
24. Hindustan Commercial Bank Ltd.
25. Hindustan Mercantile Bank Ltd.
26. Hongkong & Shanghai Banking Corporation
27. Indian Bank
28. Indian Overseas Bank
29. Karnataka Bank Ltd.
30. Karur Vysya Bank Ltd.
31. Krishnaram Baldeo Bank Ltd.
32. Kumbakonam City Union Bank Ltd.
33. Lakshmi Commercial Bank Ltd.
34. Lakshmi Vilas Bank Ltd.
35. Mercantile Bank Ltd.
36. Miraj State Bank Ltd.
37. Mitsui Bank
38. Narang Bank of India Ltd.
39. National & Grindlays Bank Ltd.
40. National Bank of Lahore Ltd.
41. Nedungadi Bank Ltd.
42. New Bank of India Ltd.
43. Oriental Bank of Commerce Ltd.
44. Punjab and Sind Bank Ltd.
45. Punjab National Bank
46. Ratnakar Bank Ltd.
47. Sangli Bank Ltd.
48. South India Bank Ltd.
49. South Indian Bank Ltd.
50. State Bank of Bikaner & Jaipur
51. State Bank of Hyderabad
52. State Bank of India
53. State Bank of Indore
54. State Bank of Mysore
55. State Bank of Patiala
56. State Bank of Saurashtra
57. State Bank of Travancore
58. Syndicate Bank

59. Tamilnad Mercantile Bank Ltd.
60. Tanjore Permanent Bank Ltd.
61. Traders Bank Ltd.
62. Union Bank of India
63. United Bank of India
64. United Commercial Bank
65. United Industrial Bank Ltd.
66. United Western Bank Ltd.
67. Vijaya Bank Ltd.
68. Vysya Bank Ltd.

Non-scheduled Banks

69. Bank of Cochin Ltd.
70. Catholic Syrian Bank Ltd.
71. Dhanalakshmi Bank Ltd.
72. Federal Bank Ltd.
73. Ganesh Bank of Kurundwad Ltd.
74. Gauhati Bank Ltd.
75. Jammu & Kashmir Bank Ltd.
76. Kashinath Seth Bank Pvt. Ltd.
77. Lord Krishna Bank Ltd.
78. Naini Tal Bank Ltd.
79. Parur Central Bank Ltd.

III. CO-OPERATIVE BANKS

(*a*) Total number of banks to whom the questionnaires were sent 228

(*b*) Replies were received from the following banks :

(*i*) *Andhra Pradesh*

1. Andhra Pradesh State Co-operative Bank Ltd., Hyderabad-1.
2. Adilabad Jilla Kendra Sahakari Bank Ltd., Adilabad.
3. Co-operative Central Bank Ltd., Eluru.
4. Co-operative Central Bank Ltd., Rajahmundry-2.
5. Co-operative Central Bank Ltd., Vizianagaram-2.
6. Guntur District Co-operative Central Bank Ltd., Tenali.
7. Hyderabad District Co-operative Central Bank Ltd., Hyderabad.
8. Karimnagar District Co-operative Central Bank Ltd., Karimnagar.
9. Gandhi Co-operative Urban Bank Ltd., Vijayawada-2.
10. Nellore Co-operative Urban Bank Ltd., Nellore.
11. Tirupathi Co-operative Town Bank Ltd., Tirupathi.

(*ii*) *Assam*

12. Assam Co-operative Apex Bank Ltd., Shillong.
13. Tezpur Central Co-operative Bank Ltd., Tezpur.

(*iii*) *Bihar*

14. Bihar State Co-operative Bank Ltd., Patna-4.
15. Arrah-Buxar Central Co-operative Bank Ltd., Arrah.
16. Bhagalpur Central Co-operative Bank Ltd., Bhagalpur.
17. Dhanbad Central Co-operative Bank Ltd., Dhanbad.
18. Muzaffarpur-Hajipur Central Co-operative Bank Ltd., Muzaffarpur.
19. Nawadah Central Co-operative Bank Ltd., Nawadah.
20. Purnea District Central Co-operative Bank Ltd., Purnea.
21. Sitamarhi Central Co-operative Bank Ltd., Sitamarhi Court.

(*iv*) *Gujarat*

22. Gujarat State Co-operative Bank Ltd., Ahmedabad-1.
23. Ahmedabad District Co-operative Bank Ltd., Ahmedabad-1.
24. Amreli Jilla Madhyastha Sahakari Bank Ltd., Amreli.
25. Baroda Central Co-operative Bank Ltd., Baroda.
26. Baroda Zilla Audyogic Sahakari Bank Ltd., Baroda.
27. Broach District Co-operative Bank Ltd., Broach.
28. Jamnagar District Co-operative Bank Ltd., Jamnagar.
29. Junagadh District Central Co-operative Bank Ltd., Junagadh.
30. Rajkot District Co-operative Bank Ltd., Rajkot.
31. Saurashtra Small Industries Co-operative Bank Ltd., Rajkot.
32. Southern Gujarat Industrial Co-operative Bank Ltd., Surat.
33. Surat District Co-operative Bank Ltd., Surat.
34. Shree Bharat Co-operative Bank Ltd., Wadi, Baroda.
35. Dhansura Peoples' Co-operative Bank Ltd., Dhansura.
36. Shree Gajanan Sahakari Pedhi Ltd., Patan.
37. Gondal Vibhag Nagrik Sahakari Bank Ltd., Gondal
38. Kalol Urban Co-operative Bank Ltd., Kalol.
39. Sinor Nagrik Sahakari Bank Ltd., Sinor.

(*v*) *Haryana*

40. Haryana State Co-operative Bank Ltd., Chandigarh.
41. Gurgaon Central Co-operative Bank Ltd., Gurgaon.
42. Karnal Central Co-operative Bank Ltd., Karnal.
43. Sirsa Central Co-operative Bank Ltd., Sirsa.

(*vi*) *Jammu & Kashmir*

44. Jammu and Kashmir State Co-operative Bank Ltd., Srinagar.
45. Jammu Central Co-operative Bank Ltd., Jammu (Tawi).

(*vii*) *Kerala*

46. Kerala State Co-operative Bank Ltd., Trivandrum.
47. Alleppey District Co-operative Bank Ltd., Alleppey-1.
48. Malabar Co-operative Central Bank Ltd., Kozhikode-2.
Palghat Co-operative Central Bank Ltd., Palghat-1.

50. Trichur District Co-operative Bank Ltd., Trichur-1.
51. Cherpalacheri Co-operative Urban Bank Ltd., Cherpalacheri.

(*viii*) *Madhya Pradesh*

52. Madhya Pradesh State Co-operative Bank Ltd., Jabalpur.
53. Balghat Central Co-operative Bank Ltd., Balghat.
54. Bhind Central Co-operative Bank Ltd., Bhind.
55. Bilaspur Co-operative Central Bank Ltd., Bilaspur.
56. Chhatarpur District Central Co-operative Bank Ltd., Chhatarpur.
57. Dewas Central Co-operative Bank Ltd., Dewas.
58. Durg District Birendra Co-operative Central Bank Ltd., Durg.
59. Gwalior District Co-operative Central Bank Ltd., Gwalior.
60. Indore Premier Co-operative Bank Ltd., Indore.
61. Morena Central Co-operative Bank Ltd., Morena.
62. Neemuch Central Co-operative Bank Ltd., Mandsaur.
63. Raipur Co-operative Central Bank Ltd., Raipur.
64. Ratlam Central Co-operative Bank Ltd., Ratlam.
65. Shivpuri Kendriya Sahakari Bank Maryadit, Shivpuri.
66. Surguja Co-operative Central and Land Mortgage Bank Ltd., Ambikapur.
67. Ujjain District Co-operative Bank Ltd., Ujjain.
68. Indore Paraspar Sahakari Bank Ltd., Indore.

(*ix*) *Maharashtra*

69. Maharashtra State Co-operative Bank Ltd., Bombay-1.
70. Akola Co-operative Central Bank Ltd., Akola.
71. Bhandara District Central Co-operative Bank Ltd., Bhandara.
72. Jalgaon District Central Co-operative Bank Ltd., Jalgaon.
73. Nagpur District Central Co-operative Bank Ltd., Nagpur-2.
74. Nanded District Central Co-operative Bank Ltd., Nanded.
75. Poona District Central Co-operative Bank Ltd., Pune-2.
76. Ratnagiri District Central Co-operative Bank Ltd., Ratnagiri.
77. Sangli District Central Co-operative Bank Ltd., Sangli.
78. Sholapur District Central Co-operative Bank Ltd., Sholapur.
79. Sholapur District Industrial Co-operative Bank Ltd., Sholapur.
80. Bombay Mercantile Co-operative Bank Ltd., Bombay-3.
81. Dhulia Urban Co-operative Bank Ltd., Dhulia.
82. Ichalkaranji Urban Co-operative Bank Ltd., Ichalkaranji.
83. Janata Sahakari Bank Ltd., Pune-2.
84. Saraswat Co-operative Bank Ltd., Bombay-4.
85. Satana Merchants' Co-operative Bank Ltd., Satana.
86. Sangli Urban Co-operative Bank Ltd., Sangli.

(*x*) *Mysore*

87. Mysore State Co-operative Apex Bank Ltd., Bangalore-18.
88. Mysore State Industrial Co-operative Bank Ltd., Bangalore-4.
89. Belgaum District Central Co-operative Bank Ltd., Belgaum.

90. Belgaum District Industrial Co-operative Bank Ltd., Belgaum.
91. Bijapur District Industrial Co-operative Bank Ltd., Bagalkot.
92. Chitradurga District Industrial Co-operative Bank Ltd., Dawangere.
93. Coorg District Co-operative Central Bank Ltd., Mercara.
94. Hassan District Industrial Co-operative Bank Ltd., Hassan.
95. Kanara District Co-operative Central Bank Ltd., Sirsi.
96. Karnatak Central Co-operative Bank Ltd., Dharwar-1.
97. Mandya District Co-operative Central Bank Ltd., Mandya.
98. Mandya District Industrial Co-operative Bank Ltd., Mandya.
99. Mysore District Co-operative Central Bank Ltd., Mysore City.
100. Mysore District Industrial Co-operative Bank Ltd., Mysore-1.
101. North Kanara District Industrial Co-operative Bank Ltd., Karwar.
102. Shimoga District Co-operative Central Bank Ltd., Shimoga.
103. Shimoga District Industrial Co-operative Bank Ltd., Shimoga.
104. South Canara Co-operative Bank Ltd., Mangalore-3.
105. Tumkur District Industrial Co-operative Bank Ltd., Tumkur.
106. Belgaum Pioneer Urban Co-operative Credit Bank Ltd., Belgaum.
107. Bellary Co-operative Town Bank Ltd., Bellary.
108. Bijapur Shri Sidheswar Urban Co-operative Bank Ltd., Bijapur.
109. Hubli Urban Co-operative Bank Ltd., Hubli.
110. Town Co-operative Bank Ltd., Chintamani.

(*xi*) *Nagaland*

111. Nagaland State Co-operative Bank Ltd., Dimapur, Nagaland.

(*xii*) *Orissa*

112. Orissa State Co-operative Bank Ltd., Cuttack.
113. Aska Co-operative Central Bank Ltd., Aska.
114. Balasore District Central Co-operative Bank Ltd., Balasore.
115. Sambalpur District Co-operative Central Bank Ltd., Baragarh.
116. Puri Urban Co-operative Bank Ltd., Puri.

(*xiii*) *Punjab*

117. Punjab State Co-operative Bank Ltd., Chandigarh.
118. Batala Central Co-operative Bank Ltd., Batala.
119. Jullundur Central Co-operative Bank Ltd., Jullundur.
120. Kapurthala Central Co-operative Bank Ltd., Kapurthala.
121. Ludhiana Central Co-operative Bank Ltd., Ludhiana.
122. Patiala Central Co-operative Bank Ltd., Patiala.
123. Shri Krishna Co-operative Urban Bank Ltd., Nawanshahr.

(*xiv*) *Rajasthan*

124. Rajasthan State Co-operative Bank Ltd., Jaipur.
125. Rajasthan State Industrial Co-operative Bank Ltd., Jaipur.
126. Ajmer Central Co-operative Bank Ltd., Ajmer.
127. Ganganagar Kendriya Sahakari Bank Ltd., Sri Ganganagar.

128. Jaipur Central Co-operative Bank Ltd., Jaipur.
129. Kota Central Co-operative Bank Ltd., Kota.
130. Pali Central Co-operative Bank Ltd., Pali.
131. Udaipur Central Co-operative Bank Ltd., Udaipur.
132. Ajmer Urban Co-operative Bank Ltd., Ajmer.
133. Urban Co-operative Bank Ltd., Jaipur.

(*xv*) *Tamil Nadu*

134. The Madras State Co-operative Bank Ltd., Madras-1.
135. The Madras State Industrial Co-operative Bank Ltd., Madras-6.
136. The Coimbatore District Co-operative Central Bank Ltd., Coimbatore-1.
137. The Co-operative Central Bank Ltd., Kumbakonam.
138. The Co-operative Central Bank Ltd., Tanjore.
139. The Madras District Co-operative Central Bank Ltd., Madras.
140. The Madurai District Central Co-operative Bank Ltd., Madurai.
141. The South Arcot Co-operative Central Bank Ltd., Cuddalore-1.
142. The Big Kancheepuram Co-operative Town Bank Ltd., Kancheepuram.
143. The George Town Co-operative Bank Ltd., Madras-1.
144. The Karur Town Co-operative Bank Ltd., Karur.
145. The Nicholson Co-operative Town Bank Ltd., Thanjavur.
146. The Tinnevelly Junction Co-operative Urban Bank Ltd., Tirunelveli Junction.
147. The Tiruchi City Co-operative Bank Ltd., Tiruchi-1.
148. The Sri Kamalambika Co-operative Urban Bank Ltd., Thiruvarur.

(*xvi*) *Uttar Pradesh*

149. Uttar Pradesh Co-operative Bank Ltd., Lucknow.
150. Allahabad District Co-operative Bank Ltd., Allahabad-3.
151. Bijnor District Co-operative Bank Ltd., Bijnor.
152. District Co-operative Bank Ltd., Lakhimpur Kheri.
153. Meerut District Co-operative Bank Ltd., Meerut.
154. Muzaffarnagar District Co-operative Bank Ltd., Muzaffarnagar.
155. Tehri Garhwal Zila Sahakari Bank Ltd., Tehri.
156. Zila Sahakari Bank Ltd., Ballia.
157. Zila Sahakari Bank Ltd., Kanpur.

(*xvii*) *West Bengal*

158. West Bengal State Co-operative Bank Ltd., Calcutta-1.
159. Birbhum District Central Co-operative Bank Ltd., Birbhum.
160. Burdwan Central Co-operative Bank Ltd., Burdwan.
161. Nadia District Central Co-operative Bank Ltd., Nadia.
162. Bishnupur Town Co-operative Bank Ltd., Bishnupur.
163. Contai Co-operative Bank Ltd., Contai, Dist. Midnapore.

(*xviii*) *Chandigarh*

164. Chandigarh State Co-operative Bank Ltd., Chandigarh.

(*xix*) *Goa, Daman and Diu*

165. Goa Urban Co-operative Bank Ltd., Panaji, Goa.

(*xx*) *Himachal Pradesh*

166. Himachal Pradesh State Co-operative Bank Ltd., Simla.
167. Kangra Central Co-operative Bank Ltd., Dharamsala.

(*xxi*) *Tripura*

168. Tripura State Co-operative Bank Ltd., Agartala, Tripura.

IV. AGRICULTURAL UNIVERSITIES, CO-OPERATIVE INSTITUTES AND TRAINING CENTRES

(*a*) Total number of Institutions to whom the questionnaires were sent 27
(*b*) Replies to the questionnaires were received from the following :

1. Andhra Pradesh Agricultural University, Hyderabad.
2. Jawaharlal Nehru Krishi Vishwavidyalaya, Jabalpur.
3. Punjab Agricultural University, Ludhiana.
4. U. P. Agricultural University, Pant Nagar.
5. University of Agricultural Science, Hebbal, Bangalore.
6. Vaikunth Mehta National Institute of Co-operative Management, Pune-1.
7. Co-operative Training College, Patna-6.
8. Co-operative Training College, Vallabh Vidyanagar, Anand, Gujarat.
9. Co-operative Training College, Nungambakkam, Madras-6.
10. Co-operative Training College, Pune-4.
11. Co-operative Training College, Bangalore-4.
12. Co-operative Training College, Gopalpur on Sea, Orissa.
13. Co-operative Training College, New Patiala, Punjab.
14. Co-operative Training College, Kalyani, Nadia District, West Bengal.
15. Co-operative Training Centre, Ghaspani, Nagaland.

V. MEDIUM AND LARGE SCALE INDUSTRIES, WHOLESALE TRADERS, EXPORTERS AND IMPORTERS AND OTHERS

(*a*) Total number of units to whom questionnaires were sent 4050
(*b*) Replies were received from the following units :

(*i*) *Public Limited Companies*

1. Williamson Magor & Co. Ltd., Calcutta-1.
2. Shahabad Tea Co. Ltd., Calcutta-4.
3. The Great Gopalpur Tea Co. Ltd., Jalpaiguri.
4. Gopalpur Tea Co. Ltd., Jalpaiguri.
5. Kadambini Tea Co. Ltd., Jalpaiguri.

6. Ramjhora Tea Co. Ltd., Jalpaiguri.
7. The Orissa Mineral Development Co. Ltd., Calcutta.
8. Indian Vegetable Products Ltd., Bombay-1.
9. Brihan Maharashtra Sugar Syndicate Ltd., Pune-2.
10. The Saraswati Industrial Syndicate Ltd., Yamunanagar, Ambala.
11. Vazir Sultan Tobacco Co. Ltd., Hyderabad-20.
12. Modi Spinning & Weaving Mills Co. Ltd., Uttar Pradesh.
13. Dawn Mills Co. Ltd., Bank Street, Bombay-1.
14. The Indian Manufacturing Co. Ltd., Apollo Street, Bombay-1.
15. Vijaya Mills Co. Ltd., Naroda Road, Ahmedabad-2.
16. New Great Eastern Spinning & Weaving Co. Ltd., Bombay-27.
17. Hindustan Spinning & Weaving Mills Co. Ltd., Bombay-1.
18. Gokak Mills Ltd., Bombay-1.
19. Monogram Mills Co. Ltd., Ahmedabad-21.
20. Ahmedabad Advance Mills Ltd., Ahmedabad.
21. Budge Budge Amalgamated Mills Ltd., Calcutta-1.
22. Rustom Jehangirh Vakil Mills Co. Ltd., Ahmedabad-1.
23. Vasanta Mills Ltd., Singanallur, Coimbatore-5.
24. Modern Mills Ltd., Bombay-1.
25. Mysore Spinning & Weaving Co. Ltd., Bombay-1.
26. Minerva Mills Ltd., Bombay-1.
27. Loyal Textile Mills Ltd., Kovilpatti, Tamil Nadu.
28. Elgin Mills Co. Ltd., Kanpur.
29. Arunoday Mills Ltd., Rajkot.
30. Swadeshi Cotton Mills Ltd., Kanpur.
31. Goldmohur Mills Ltd., Bombay-1.
32. Swadeshi Cotton & Flour Mills Ltd., Indore G.P.O., Madhya Pradesh.
33. Swan Mills Ltd., Bombay-1.
34. Ahmedabad Shri Ramkrishna Mills Co. Ltd., Ahmedabad-21.
35. Aruna Mills Ltd., Ahmedabad-2.
36. Marsden Spinning & Manufacturing Co. Ltd., Comtipur, Ahmedabad.
37. Tata Iron & Steel Co. Ltd., Bombay-1.
38. Hindustan Aluminium Corporation Ltd., Bombay-20.
39. Sundaram Clayton Limited, Madras-6.
40. Premier Automobiles Ltd., Bombay-1.
41. Rane (Madras) Limited, Madras-6.
42. Wheels India Ltd., Madras-6.
43. Brakes India Ltd., Madras-6.
44. Indian Standard Wagon Co. Ltd., Calcutta-1.
45. Burn and Co. Ltd., Calcutta-1.
46. Scindia Workshop Ltd., Bombay-1.
47. Engine Valves Ltd., Madras-16.
48. Seshasayee Industries Ltd., Serakuppam, Vadalur P.O., Tamil Nadu.
49. Omega Insulated Cable Co. (India) Ltd., Madras.
50. Bharat Bijlee Ltd., Bombay-22.
51. Bharat Electrical Industries Ltd., R. N. Mookerjee Road, Calcutta-1.
52. Tractor Engineers Ltd., Powai, Bombay-72.
53. Kelvinator of India Ltd., Delhi-6.
54. Wellman Incandescent India Ltd., Calcutta-16.
55. International Computers Indian Manufacture Ltd., Bombay-1.

56. Associated Bearing Co. Ltd., Bombay-2.
57. Calcutta Steel Co. Ltd., Calcutta-1.
58. Mukand Iron & Steel Works Ltd., Kurla, Bombay-70.
59. National Pipes & Tubes Co. Ltd., Calcutta-1.
60. The Metal Box Company of India Ltd., Chowringhee Road, Calcutta-20.
61. Indian Tube Co. Ltd., Chowringhee Road, Calcutta-16.
62. Southern Industrial Corporation Ltd., Madras-1.
63. Reyrolle Burn Ltd., Calcutta-1.
64. Atic Industries Ltd., Post Atul, Dist. Bulsar.
65. Atul Products Ltd., Naroda Road, Ahmedabad-2.
66. Tata Chemicals Ltd., Bruce Street, Bombay-1.
67. Chemicals & Fibres of India Ltd., Ballard Estate, Bombay-1.
68. Indian Detonators Ltd., Sanatnagar, Hyderabad-18.
69. Alkali & Chemical Corporation of India Ltd., Chowringhce, Calcutta-16.
70. Indian Explosive Ltd., Chowringhee, Calcutta-16.
71. Sandoz (India) Ltd., Worli, Bombay-18.
72. Unichem Laboratories Ltd., Jogeshwari (W), Bombay-60.
73. Tata Oil Mills Co. Ltd., Bruce Street, Bombay-1.
74. Shalimar Paints Ltd., Cauvae Street, Calcutta.
75. Hindustan Lever Ltd., Bombay-1.
76. Bayer (India) Ltd., Veer Nariman Road, Bombay-20.
77. Blundell Eomite Paints Ltd., Veer Nariman Road, Bombay-1.
78. Bombay Paints & Allied Products Ltd., Chembur, Bombay-74.
79. Indo-Nipon Chemical Co. Ltd., Dr. D. N. Road, Bombay-1.
80. Hooghly Ink Co. Ltd., Bally Gunge Circular Road, Calcutta-19.
81. Premier Tyres Ltd., New Marine Lines, Bombay-20.
82. The Statesman Limited, Chowringhee Square, Calcutta-1.
83. Orient Longmans Ltd., Connaught Place, New Delhi-1.
84. Braithwaite Burn & Jessop Construction Co. Ltd., Calcutta.
85. Simon-Carves India Ltd., Transport Depot Road, Calcutta-27.
86. Killick Industries Ltd., (Electric Supply Department), Ballard Estate, Bombay-1.
87. Darbhanga Laheriasarai Electric Supply Corporation Ltd., Bihar.
88. Tata Hydro-Electric Power Supply Co. Ltd., Bombay House, Bombay-1.
89. East India Corporation Ltd., Tirupparan Kundram Road, Madurai.
90. Food Specialities Ltd., Bahadur Shah Zafar Marg, New Delhi.
91. Beltex Ltd., Ellis Bridge, Ahmedabad-6.
92. India Motor Parts & Accessories Ltd., Mount Road, Madras-2.
93. Binny Ltd., Armenian Street, Madras-1.
94. T. Stanes & Co. Ltd., Coimbatore-8.
95. Greaves Cotton & Co. Ltd., Forbes Road, Bombay-1.
96. D. Macropolo & Co. Ltd., Dr. D. N. Road, Bombay-1.
97. Famous Cine Laboratories & Studios Ltd., Mahalaxmi, Bombay-11.
98. Forbes Forbes Campbell & Co., Ltd., Home Street, Bombay-1.
99. Martin Burn Ltd., Mission Row, Calcutta-1.
100. Orissa Cement Ltd., Rajgangapur, Orissa.
101. Dalmia Cement (Bharat) Ltd., New Delhi-1.
102. Rampur Distillery & Chemicals Co. Ltd., Rampur (U.P.)
103. Associated Cement Cos. Ltd., Maharashi Karve Road, Bombay-20.
104. Southern Brick Works Ltd., Nowbray's Road, Madras-14.

105. Dunlop India Ltd., Free Street, Calcutta-16.
106. Madras Rubber Factory Ltd., Mount Road, Madras-2.
107. Associated Journals Limited, Lucknow.
108. Hindustan National Glass Mfg. Co. Ltd., Wellesley Place, Calcutta-1.
109. Belpahar Refractories Ltd., Jamshedpur.
110. Esso Standard Refining Co. of India Ltd., Mahul, Bombay-20.
111. Rohit Pulp & Paper Mills Ltd., Parsee Bazar Street, Bombay-1.
112. Goodyear India Ltd., Acharya J. B. Road, Calcutta-20.
113. Saurashtra Cement & Chemical Industries Ltd., Ravava-2. (Dist. Junagadh).
114. Indian Hume Pipe Co., Ltd., Bombay-1.
115. Orient Paper Mills Ltd., Calcutta-1.
116. Punalur Paper Mills Ltd., Punalur, Kerala.
117. Groz-Bockert Saboo Ltd., Chandigarh.

(ii) *Private Limited Companies*

118. I.C.I. (India) Pvt. Ltd., Chowringhee, Calcutta-16.
119. M/s. Daga & Co. Pvt. Ltd., P.O. Jalpaiguri (W.B.)
120. M/s. Churakulam Tea Estate Pvt. Ltd., Kottayam-1.
121. M/s. Dalowjan Tea Co. (P) Ltd., Golaghat P.O., Assam.
122. M/s. Makaibari Tea Estate, Darjeeling.
123. Tea Estate India (Pvt.) Ltd., Coonoor-1.
124. Deccan Plantations Pvt. Ltd., Natha Street, Bombay-9.
125. Reform Flour Mills Pvt. Ltd., Subhas Road, Calcutta-1.
126. Newasarwa Mills Pvt. Ltd., P.O. Saraspur, Ahmedabad-18.
127. Eastern Silk Mfg. Co. Pvt. Ltd., Jagmohan Mullick Lane, Calcutta-7.
128. India Woollen Textile Mills (Pvt.) Ltd., G. T. Road, Amritsar (Dist.)
129. Eastern Distilleries Pvt. Ltd., B. L. Saha Road, Calcutta-53.
130. Bata Shoe Co. Pvt. Ltd., Shakespeare Sarani, Calcutta-17.
131. Private Industrial Estate, Belghata Main Road, Calcutta-10.
132. Teksons Pvt. Ltd., Modi Chambers, Bombay-4.
133. Power Cables Pvt. Ltd., Channi Road, Baroda-2.
134. Automatic Electric Pvt. Ltd., Naigaum Cross Road (East), Bombay-31.
135. M/s. Bomin Private Ltd., Odhow, Ahmedabad.
136. Ms./ V. A.P. Corpn. Pvt. Ltd., Industrial Estate, Udhna (Dist. Surat).
137. Industrial & Agricultural Eng. Co. (Bombay) Pvt. Ltd., Forbes Street, Bombay-1.
138. Bungo Steel Furniture (P) Ltd., Diamond Harbour Road, Calcutta-23.
139. Raptakos, Brett & Co. Pvt. Ltd., Dr. Annie Besant Road, Bombay-18.
140. Mico Products Pvt. Ltd., Mahim, Bombay-16.
141. Asian Paints (India) Pvt. Ltd., Nariman Point, Bombay-1.
142. Camlin Private Ltd., Off. Kurla-Andheri Road, Bombay-59.
143. The Standard Tile & Clay works (Pvt.) Ltd., Feroke, Kerala.
144. Harry Refractory & Ceramic Works Pvt. Ltd., Rabindra Sarani, Calcutta-3.
145. Calama Industries Pvt. Ltd., Bombay-62.
146. Continental Construction Pvt. Ltd., Ring Road, New Delhi-3.
147. Madras Auto Service Pvt. Ltd., Mount Road, Madras-6,
148. Simplex Concrete Tiles (I) Pvt. Ltd., Calcutta-27.

149. Sundaram Motors Pvt. Ltd., Mount Road, Madras-6.
150. T.V.S. Iyenger & Sons Pvt. Ltd., West Veli Street, Madurai-1.
151. Geo Miller & Co. Pvt. Ltd., Hastings Street, Calcutta-1.
152. Automotive Manufactures Pvt. Ltd., Kurla, Bombay-70.
153. Uni-Distributors Pvt. Ltd., S. V. Road, Jogeshwari, (W), Bombay-60.
154. M/s. Gordon Woodroffe & Co (Madras) Pvt. Ltd., North Beach Road, Madras-1.
155. M/s. Paul & Chakraburty Pvt. Ltd., Strand Road, Calcutta-1.

(*iii*) *Partnership Concerns*

156. M/s. Meghraj Sanchialal, P.O. Barauni, Dist. Monghyr.
157. M/s. Ramkrishna Pulse Mills, Anand, Gujarat.
158. M/s. Jayant Extraction Industries, Jamnagar, Gujarat.
159. M/s. Chegu Krishnamurthy, Guntur.
160. M/s. Gopal Dass Jagat Ram, Ludhiana-3.
161. M/s. Loomba Manufacturing Syndicate, Industrial Area, Ludhiana.
162. M/s. Kaycee Plantations & Cannings, Masjid Road, Trichur-1.
163. M/s. Northern India Essential Oil Industries Pioneer Manufacturers, G. T. Road, Jullundur City.
164. M/s. B. N. Modi & Co., Civil Lines, Kanpur.
165. M/s. Surulivel Nadar & Bros., Bodinayakkanur, Dist. Madurai, (Tamil Nadu).
166. M/s. Jaggi Brothers, Sembudoss Street, Madras-1.
167. M/s. Jayant Metal Mfg. Co., Sayani Road, Bombay-25.
168. M/s. M. G. Automobiles, Patel Nagar, Bellary.
169. M/s. Asoka Industries, Jamshedpur-6.
170. M/s. Amravati Fertiliser Co., Karur, Tamil Nadu.
171. M/s. Rainbow Texdyes Corporation, Baroda-4.
172. M/s. C. D. Thakkar & Co., Brabourne Road, Calcutta-1.
173. M/s. Ambica Minichem Industries, Madhia Road, Bhavnagar, Gujarat.
174. The Indian Valve Company, Lake Road, Calcutta-29.
175. The Baliapatam Tile Works Ltd., Cannanore, Kerala.
176. M/s. Chemical Agency, Lal Darwaja, Ahmedabad-1.
177. M/s. Modern Hindu Hotel, Seshadri Road, Bangalore-9.
178. M/s. Hindustan Import Export Corporation, Broadway, Madras-1.
179. M/s. M. M. & Sons, Gandhinagar, Bangalore-9.
180. M/s. P. Mittulaul Lalah & Sons, Madras-29.
181. M/s. Dinshaw C. Cooper & Sons, Bank Street, Bombay-1.
182. Basantkumar Bilasraj Rungta, Bombay.
183. M/s. Nav Maharashtra Chakan Oil Mills, Shankar Seth Road, Pune.
184. M/s. Ram Saram Das & Bros., Gandhi Nagar, Amritsar.
185. M/s. National Import & Export Co., Bombay Bazar, Meerut.
186. M/s. Kantilal Raychand Mehta, Cochin-2.
187. M/s. V. Gopalkrishnan Chettier & Co. Meenakshi Koil Street, Madurai-1.
188. Jagnnath Jwala Prasad, Dalton Ganj, Bihar.
189. Bansidhar Premsukhdas Oil Mills, Calcutta-7.
190. M. S. Rubber Company, Calcutta-6.

(*iv*) *Proprietary Concerns*

191. M/s. Mehta Brothers, Delhi-6.
192. M/s. Bombay Cloth Stores, Belgaum.
193. M/s. Vikram Motors, Vikramjit Singh Road, Kanpur.
194. M/s. Bel Refrigeration Company, Madras 34.
195. M/s. Lakshmi Shoe Stores, Visakhapatnam-1.
196. M/s. Perfect Industries, Pune.
197. M/s. Lakshmi Sports, Bhopal.
198. Radhey Shyam Ishwar Chand, Delhi.

(*v*) *Others*

199. Federation of Chambers of Trade & Industry of Kerala, Cochin.
200. Delhi Hindustani Mercantile Association, Delhi-6.

APPENDIX IX

PERSONS WHO HELPED IN LIAISON ARRANGEMENTS FOR THE VISITS OF THE COMMISSION TO THE VARIOUS STATES

1. *Tamil Nadu*

Shri P. B. Menon,
Manager,
Reserve Bank of India,
Madras.

2. *Kerala*

(*i*) Shri K. K. Ray,
Deputy Chief Officer,
Department of Banking Operations and Development,
Reserve Bank of India,
Trivandrum.

(*ii*) Shri K. Ramakrishnan,
Agent,
State Bank of India,
Ernakulam.

3. *Andhra Pradesh*

(*i*) Shri D. N. Renjen,
Manager,
Reserve Bank of India,
Hyderabad.

(*ii*) Shri P. K. Nayar,
Agent,
State Bank of India,
Visakhapatnam.

4. *Orissa*

Shri A. Satyamoorthy,
Assistant Chief Officer,
Agricultural Credit Department,
Reserve Bank of India,
Bhubaneshwar.

5. *Assam*

Shri M. L. Sachdeva,
Manager,
Reserve Bank of India,
Gauhati.

6. *Mysore*

Shri D. S. Sukthankar,
Manager,
Reserve Bank of India,
Bangalore.

7. *Punjab, Haryana and Himachal Pradesh*

Shri S. C. Pant,
Assistant Chief Officer,
Agricultural Credit Department,
Reserve Bank of India,
Chandigarh.

8. *Madhya Pradesh*

(*i*) Shri P. V. Seshagiri,
Regional Manager,
State Bank of India,
Bhopal.

(*ii*) Shri Manibhai N. Patel,
Deputy Chief Officer,
Agricultural Credit Department,
Reserve Bank of India,
Indore.

9. *Rajasthan*

Shri G. A. Bhimnathwalla,
Assistant Chief Officer,
Agricultural Credit Department,
Reserve Bank of India,
Jaipur.

10. *Jammu & Kashmir*

Shri K. S. Jaspal,
Assistant Chief Officer,
Agricultural Credit Department,
Reserve Bank of India,
Srinagar.

11. *Gujarat*

Shri R. M. Nadkarny,
Deputy Chief Officer,
Reserve Bank of India,
Ahmedabad.

12. *West Bengal*

(*i*) Shri P. R. Nangia,
Manager,
Reserve Bank of India,
Calcutta.

(*ii*) Shri A. F. V. D'Souza,
Deputy Director of Research,
Reserve Bank of India,
Calcutta.

13. *Bihar*

Shri S. N. Sen,
Manager,
Reserve Bank of India,
Patna.

14. *Uttar Pradesh*

(*i*) Shri M. K. Vijaykar,
Manager,
Reserve Bank of India,
Kanpur.

(*ii*) Shri R. P. Malhotra,
Agent,
State Bank of India,
Lucknow.

15. *Delhi*

(*i*) Shri J. X. Lobo,
Manager,
Reserve Bank of India,
New Delhi.

(*ii*) Shri V. B. Das,
Manager,
Reserve Bank of India,
New Delhi.

16. *Maharashtra*

Dr. S. B. Mahabal,
Principal,
Vaikunth Mehta National Institute
of Co-operative Management,
Pune.

APPENDIX X

BANKING COMMISSION, STAFF AND SPECIAL CELL OF THE RESERVE BANK OF INDIA FOR THE COMMISSION

Shri R. G. Saraiya	*Chairman*
Shri N. Ramanand Rao	*Member*
Dr. Bhabatosh Datta	*Member*
Shri V. G. Pendharkar	*Member-Secretary*

Deputy Secretary
Shri R. Rajamani

Superintendent (Govt. Accts.)
Shri A. V. Balakrishnan

Private Secretary to Chairman
Shri B. N. Iyer

From State Bank of India
Shri K. J. Natarajan

Private Secretary to Chairman, Study Group on Legislation Affecting Banking
Shri N. K. Ramaswami

SPECIAL CELL OF THE RESERVE BANK OF INDIA

Officer-in-Charge
Shri V. M. Paranjpe

Director
Shri Abdul Hasib

Deputy Director
Kum. (Dr.) C. J. Batliwalla

Research Officers
Dr. A. Vasudevan
Dr. M. Saravane
Kum. I. K. Khadye
Shri K. N. Kotwal*

Rural Credit Officers
Shri S. D. Barde
Shri S. R. Kadlay

Dy. Chief Officers
Shri K. B. Chore
Shri B. Venkata Rao
Shri V. V. Abhyankar*

Asst. Legal Adviser
Shri R. Kirshnan

Banking Officer
Shri B. K. Aggarwal

Legal Officer
Shri Ch. Sreerama Murthy

STAFF OFFICERS

Administration
Shri T. L. Ramaswamy

Legislation
Shri A. M. Dalvi

Library
Smt. N. B. Gupte
Shri R. L. Thusu*

Statistics
Shri D. K. Thuthija
Shri K. R. Ganapathy
Shri A. Ramakrishna

Bank Procedure
Shri V. V. Nachane
Shri V. S. Vartak

Establishment & Miscellaneous

Shri S. V. Gorakshakar

Personal Assistant

To Officer-in-Charge
Shri T. R. Seshamani
Shri R. Viswanathan*

Stenographers Gr. I
Shri V. Vembu
Shri G. Aranha
Shri S. Ramamurthy
Shri R. K. Joshi
Shri R. D. Narkhede
Shri M. J. Laghate
Shri M. G. Kant*

Stenographers Gr. II

Shri R. Rajagopalan
Shri P. N. Joshi
Shri G. J. Jog
Shri S. G. Pradhan
Shri P. R. Hinge
Shri P. V. Janardhanan
Shri K. A. Kanade*
Shri A. Ganapathy*

Typists
Shri A. S. Panhale
Kum. S. B. Risbud
Shri C. M. Davis*
Shri S. K. Meeran*

Telephone Operator
Kum. M. M. Vavia
Smt. S. R. Donwalkar*

Jamadar Gr. II

Shri B. S. Tauro
Shri R. T. Gaikwad*

Driver

Shri M. H. K. Jugari

Shri S. N. Pawar*

Agricultural Credit

Shri V. G. Dindorkar

Assistants

Shri H. B. Ishwar
Shri R. K. Padhye
Shri S. V. Sahasrabudhe
Shri L. S. Bhagwat
Shri V. R. Shinde
Shri S. P. Kothari
Shri I. D. Wartika
Smt. U. U. Nerurkar
Smt. M. V. Sasy
Kum. N. Sreemathy
Shri K. R. Satyamurthi*
Shri A. J. Shukla*
Shri P. M. Prithiani*
Smt. A. P. Velho*
Shri. A. V. Kadam*
Shri A. K. Shah*
Shri S. R. Mankame*
Shri P. Ramachandra Rao*

Clerks Grade I
Shri R. Narayanaswamy
Shri A. Y. Ghaisas
Shri V. D. Bhat
Shri A. K. Seetharaman
Smt. Janaky Narayanaswamy
Shri K. Shankar
Shri I.M.N. Fernandes*
Shri F. I. Memon*
Shri N. P. Raichandani*
Shri C. G. Acharya*
Shri P. L. Malandkar*
Shri K. V. Ambure*

Duftry

Shri S. S. Nalawade
Shri B. S. Jadhav*

Peons

Shri B. R. Lotankar
Shri S. S. Ambekar
Shri S. G. Ughade
Shri S. G. Paithankar

Khitmatgars

Shri D. P. More
Shri R. K. Mandavkar

Mazdoor

Shri N. S. Tambe

Farashes

Shri M. V. Thombre
Shri S. R. Sandis
Shri S. B. Gurao*
Shri B. L. Golambade*

Shri B. S. Ambre.
Shri V. P. Talashilkar
Shri M. A. A. Shaikh
Shri C. D'Souza
Shri K. V. Mohite*
Shri L. B. Ghanekar*

Part-Time Sweeper

Smt. Shantibai V. Parmar

* These persons worked earlier for a part of the tenure of the Commission.

APPENDIX XI

TREND AND PROGRESS OF BANKING IN INDIA

STATEMENT† A.XI.1 : Trend and Progress of Commercial Banks 1870-1934.

A.XI.2 : Trend and Progress of Commercial Banks 1935-1950.

A.XI.3 : Trend and Progress of Co-operative Credit Movement, 1916-1951.

A.XI.4 : Trend and Progress of Co-operative Credit Movement, 1952-1970.

† The purpose of these statements is to give the salient features of available statistical data relating to banks for the period prior to 1951. In Chapter 2, the major developments in Indian banking since 1951 are reviewed.

STATEMENT A.XI. 1 TREND AND PROGRESS OF COMMERCIAL BANKS, 1870-1934

Three Presidency Banks (1870-1920)
Imperial Bank of India (1921-1934)

(Amounts in Rs. lakhs)

Year ending December 31	No. of offices	Paid-up capital, Reserves	Deposits		*Ratio of 3 to 5*	Cash balance*	*Ratio of 7 to 5*	Investments in Govt. securities%	*Ratio of 9 to 5*	Bank credit*	*Ratio of 11 to 5*
			Govt. and public	Private							
1	2	3	4	5	6	7	8	9	10	11	12
1870 ..		362	543	640	*56.6*	997	*155.8*	130	*20.3*		
1880 ..		405	291	849	*48.0*	741	*87.3*	255	*30.0*		
1890 ..		448	359	1476	*30.4*	1297	*87.9*	334	*22.6*		
1900 ..		560	281	1288	*43.5*	504	*39.1*	303	*23.5*		
1911 ..		700	438	3406	*20.6*	1358	*39.9*	643	*18.9*		
1912 ..		739	427	3580	*20.6*	1177	*32.9*	643	*18.0*		
1913 ..		748	589	3647	*20.5*	1538	*42.2*	682	*18.7*		
1914 ..		764	562	4004	*19.1*	2084	*52.0*	962	*24.0*		
1915 ..		748	489	3861	*19.4*	1465	*37.9*	1258	*32.6*		
1916 ..	65	736	521	4471	*16.5*	1727	*33.6*	1245	*27.8*		
1917 ..	69	743	771	6772	*11.0*	3377	*49.9*	1614	*23.8*		
1918 ..	71	720	864	5098	*14.1*	1708	*33.5*	1274	*25.0*		
1919 ..	71	733	772	7227	*10.1*	2363	*32.7*	1347	*18.6*		
1920 ..	72	753	903	7726	*9.7*	2603	*33.7*	1424	*18.4*		
1921 ..	80	964	680	6578	*14.7*	1368	*20.8*	1117	*17.0*	5356	*81.4*
1922 ..	95	985	1416	5701	*17.3*	1512	*26.5*	853	*15.0*	5354	*93.9*
1923 ..	135	1008	857	7420	*13.6*	1549	*20.9*	1089	*14.7*	7037	*94.8*
1924 ..	150	1030	750	7671	*13.4*	1609	*21.0*	1515	*19.7*	6115	*79.7*
1925 ..	169	1045	546	7783	*13.4*	1753	*22.5*	1580	*20.3*	5615	*72.1*
1926 ..	174	1063	645	7390	*14.4*	2096	*28.4*	1720	*23.3*	4802	*65.0*
1927 ..	184	1075	720	7207	*14.9*	1092	*15.2*	1670	*23.2*	6073	*84.3*
1928 ..	185	1085	795	7130	*15.2*	1065	*14.9*	1904	*26.7*	6080	*85.3*
1929 ..	187	1095	760	7164	*15.3*	1405	*19.6*	3017	*42.1*	4012	*56.0*
1930 ..	189	1103	737	7660	*14.4*	1318	*17.2*	2657	*34.7*	4133	*54.0*
1931 ..	189	1063	832	6386	*16.6*	1120	*17.5*	2759	*43.2*	4158	*65.1*
1932 ..	191	1080	707	6836	*14.6*	2107	*30.8*	3037	*44.4*	3061	*44.8*
1933 ..	194	1085	644	7413	*14.6*	1877	*25.3*	4619	*62.3*	2298	*31.0*
1934 ..	204	1098	672	7428	*14.8*	1903	*25.6*	4156	*56.0*	2878	*38.7*

% Total investments till 1920.
* Bank credit includes cash credits and overdrafts, bills discounted and purchased and other loans.

contd.

STATEMENT A.XI. 1 TREND AND PROGRESS OF COMMERCIAL BANKS 1870-1934 (*Contd.*)

Indian Joint Stock Banks—'A' class banks with paid-up capital and reserves of Rs. 5 lakhs and over

(Amounts in Rs. lakhs)

Year ending December 31	No. of Report-ing Banks	No. of offices	Paid-up capital and Reserves	Deposits	*Ratio of 15 to 16*	Cash balances	*Ratio of 18 to 16*
	13	14	15	16	17	18	19
1870	2		12	14	*85.7*	5	*35.7*
1880	3		21	63	*33.3*	17	*26.9*
1890	5		51	271	*18.8*	56	*20.7*
1900	9		128	808	*15.8*	119	*14.7*
1911	18		412	2529	*16.3*	362	*14.3*
1912	18		426	2726	*15.6*	400	*14.7*
1913	18		364	2259	*16.1*	400	*17.7*
1914	17		393	1711	*23.0*	353	*20.6*
1915	20		438	1787	*24.5*	399	*22.3*
1916	20	151	461	2471	*18.7*	603	*24.4*
1917	18	176	467	3117	*15.0*	765	*24.5*
1918	19	176	602	4059	*14.8*	949	*23.4*
1919	18	194	763	5899	*12.9*	1217	*20.6*
1920	25	236	1092	7115	*15.3*	1631	*22.9*
1921	27	273	1240	7690	*16.1*	1566	*20.4*
1922	27	217	1064	6164	*17.3*	1204	*19.5*
1923	26	184	973	4443	*22.0*	737	*16.6*
1924	29	238	1071	5251	*20.4*	1130	*21.5*
1925	28	251	1060	5449	*19.5*	1010	*18.5*
1926	28	282	1084	5968	*18.2*	912	*15.3*
1927	29	310	1108	6084	*18.2*	770	*12.7*
1928	28	317	1110	6285	*17.7*	819	*13.0*
1929	33	399	1154	6272	*18.4*	905	*14.4*
1930	31	340	1190	6326	*18.8*	768	*12.1*
1931	34	346	1208	6226	*19.4*	771	*12.4*
1932	34	368	1221	7234	*16.9*	976	*13.5*
1933	34	404	1234	7167	*17.2*	1092	*15.2*
1934	36	460	1267	7677	*16.5*	1114	*14.5*

contd.

STATEMENT A.XI. 1 TREND AND PROGRESS OF COMMERCIAL BANKS 1870-1934 (*Contd.*)

'B' Class Banks with Paid-up Capital and Reserves of Rs. 1 lakh and over but less than Rs. 5 lakhs

(Amounts in Rs. lakhs)

Year ending December 31	No. of Reporting Banks	No. of Offices	Paid-up Capital and Reserves	Deposits	*Ratio of 22 to 23*	Cash Balances	*Ratio of 25 to 23*
	20	21	22	23	24	25	26
1870							
1880							
1890							
1900							
1911							
1912							
1913	23		50	151	*33.1*	25	*16.6*
1914	25		55	127	*43.3*	28	*22.0*
1915	25		55	91	*60.4*	20	*21.9*
1916	28	31	63	101	*62.4*	17	*16.8*
1917	25	39	54	99	*54.5*	20	*20.2*
1918	28	46	63	155	*40.6*	37	*23.9*
1919	29	56	75	228	*32.9*	54	*23.7*
1920	33	99	81	233	*34.8*	42	*18.0*
1921	38	111	100	326	*30.7*	44	*13.5*
1922	41	96	111	338	*32.8*	56	*16.6*
1923	43	98	111	327	*33.9*	61	*18.7*
1924	41	97	108	269	*40.1*	35	*13.0*
1925	46	108	118	341	*34.6*	68	*19.9*
1926	47	113	126	347	*36.3*	82	*23.6*
1927	48	126	122	346	*35.3*	52	*15.0*
1928	46	121	120	350	*34.3*	52	*14.9*
1929	45	122	115	358	*32.1*	45	*12.6*
1930	57	145	141	439	*32.1*	52	*11.8*
1931	54	125	128	392	*32.7*	47	*12.0*
1932	52	136	129	393	*32.8*	68	*17.3*
1933	55	167	131	475	*27.8*	82	*17.3*
1934	69	168	149	511	*29.2*	72	*14.1*

contd.

STATEMENT A.XI. 1 TREND AND PROGRESS OF COMMERCIAL BANKS 1870-1934 (*Concld.*)

Exchange Banks (Foreign Banks)

(Amounts in Rs. lakhs)

Year ending December 31	No. of Report-ings Banks	No. of Offices	Deposits in India	Cash Balances in India	*Ratio of 30 to 29*	Total Private Deposits
	27	28	29	30	31	32
1870	3		52	61	*11.7*	706
1880	4		340	180	*52.9*	1253
1890	5		754	350	*46.4*	2501
1900	8		1050	240	*22.9*	3146
1911	12		2817	457	*16.2*	8752
1912	12		2954	615	*20.8*	9260
1913	12		3104	588	*18.9*	9162
1914	11		3015	839	*27.8*	8857
1915	11		3355	760	*22.7*	9094
1916	10	45	3804	1014	*26.7*	10847
1917	9	45	5338	3374	*63.2*	15325
1918	10	47	6186	1518	*24.5*	15498
1919	11	48	7436	2998	*40.3*	20791
1920	15	55	7481	2518	*33.7*	22555
1921	17	62	7520	2357	*31.3*	22113
1922	18	64	7338	1618	*22.0*	19541
1923	18	75	6844	1448	*21.2*	19033
1924	18	76	7063	1637	*23.2*	20254
1925	18	74	7055	942	*13.4*	20628
1926	18	77	7154	1073	*15.1*	20859
1927	18	78	6886	813	*11.8*	20523
1928	18	86	7114	806	*11.3*	20879
1929	18	86	6666	905	*13.6*	20460
1930	18	88	6811	771	*11.3*	21236
1931	17	88	6747	881	*13.1*	19752
1932	18	86	7307	960	*13.1*	21769
1933	18	87	7078	672	*9.5*	22133
1934	17	93	7140	768	*10.8*	22756

Note: Upto 1912, the available data relate only to Class 'A' banks and Exchange Banks. The coverage has been increased to include Class 'B' banks from 1913.

Source: *Banking and Monetary Statistics of India*, Reserve Bank of India, Bombay, 1954.

STATEMENT A.XI.2—TREND AND PROGRESS OF COMMERCIAL BANKS—1935-1950

(Amounts in Rs. lakhs)

Year	Imperial Bank of India						Class A1 Banks						
	No. of offices	Paid-up Capital & Reserves	Deposits	Cash in hand & at banks	Bank Credit (Loans & advances)	Investment in Govt. Securities	No. of reporting banks	No. of offices	Paid-up Capital & Reserves	Deposits	Cash Balances	Bank Credit	Investment in Govt. & other Securities
	1	2	3	4	5	6	7	8	9	10	11	12	13
1935 ..	212	1110 (14·0)	7909	1959 (24·8)	1845 (23·3)	4641 (58·7)	—	520*	1320* (15·6)	8445*	1912* (22·6)	—	—
1936 ..	249	1113 (14·1)	7880	856 (10·9)	2177 (27·6)	5231 (66·4)	30	583	1134 (12·6)	9021	1445 (16·0)	4597 (51·0)	3630 (40·2)
1937 ..	305	1113 (13·7)	8108	1343 (16·6)	2299 (28·4)	4537 (56·0)	31	662	1171 (12·4)	9418	1592 (16·9)	5107 (54·2)	3568 (37·9)
1938 ..	348	1118 (13·7)	8151	899 (11·0)	3228 (39·6)	4172 (51·2)	32	619	1093 (11·9)	9178	1345 (14·7)	4769 (52·0)	4024 (43·8)
1939 ..	372	1123 (12·8)	8784	1109 (12·6)	4143 (47·2)	3706 (42·2)	37	—	1168 (12·5)	9370	1610 (17·2)	5241 (56·3)	3646 (38·9)
1940 ..	383	1125 (11·7)	9603	2483 (25·9)	2716 (28·3)	4760 (49·6)	39	844	1242 (11·7)	10605	2500 (23·6)	4877 (46·8)	4239 (40·0)
1941 ..	393	1125 (10·3)	10892	1527 (14·0)	2978 (27·3)	6320 (58·0)	42	937	1334 (10·3)	12899	2418 (18·7)	6259 (48·5)	5846 (45·3)
1942 ..	392	1138 (7·0)	16346	2353 (14·4)	2332 (14·3)	11446 (70·0)	44	971	1625 (8·6)	18934	4377 (23·1)	6068 (32·0)	10177 (53·7)
1943 ..	399	1148 (5·4)	21453	5376 (25·1)	2929 (13·7)	12713 (59·3)	57	1395	2372 (7·3)	32450	7425 (22·9)	10893 (34·0)	16702 (51·5)
1944 ..	421	1163 (4·9)	23778	2831 (11·9)	5572 (23·4)	14479 (60·9)	69	1944	3206 (7·3)	43657	9040 (20·7)	15788 (36·2)	23208 (53·2)
1945 ..	428	1170 (4·5)	25937	4160 (16·0)	5740 (22·1)	14894 (57·4)	75	2451	3877 (7·1)	54280	10623 (19·6)	22155 (40·8)	27902 (51·4)
1946 ..	443	1180 (4·3)	27167	4245 (15·6)	7763 (28·6)	14403 (53·0)	80	2957	4441 (7·1)	62432	12056 (19·4)	30761 (49·3)	27908 (44·7)
£							77		4657 (7·1)	61121	11644 (19·1)	30607 (50·1)	27019 (44·2)
1947 ..	362	1188 (4·1)	28659	4289 (15·0)	7144 (24·9)	15839 (55·3)	80	2542	4637 (7·5)	61987	12148 (19·6)	28841 (46·5)	28484 (46·0)
1948 ..	367	1190 (4·2)	28029	4367 (15·6)	8331 (29·7)	15081 (53·8)	78	2518	5078 (8·5)	59491	11533 (19·4)	27750 (46·6)	27964 (47·0)
1949 ..	377	1193 (4·8)	25073	6716 (26·8)	8463 (33·8)	9842 (39·3)	77	2396	5111 (10·0)	50926	9251 (18·2)	25106 (49·3)	24186 (47·5)
1950 ..	382	1195 (5·2)	23164	2845 (12·3)	9115 (39·3)	10918 (47·1)	74	2314	5056 (9·7)	52270	9116 (17·4)	26775 (51·2)	23994 (45·9)

£ Relating to Indian Union from 1946.
* Figures of Class A1 banks for 1935 include the figures for Class A2 banks also.
Figures in brackets indicate ratios (in percentages) to Deposits.

STATEMENT A.XI.2—TREND AND PROGRESS OF COMMERCIAL BANKS—1935-1950 (*Contd.*)

(Amounts in Rs. lakhs)

Year	Class A2 Banks							Class B Banks						
	No. of Reporting Banks	No. of offices	Paid-up Capital & Reserves	Deposits	Cash Balances	Bank Credit	Investment in Govt. & Other Securities	No. of Reporting Banks	No. of offices	Paid-up Capital & Reserves	Deposits	Cash Balances	Bank Credit	Investment in Govt. & Other Securities
	14	15	16	17	18	19	20	21	22	23	24	25	26	27
1935 ..								62	160	139 *(26·3)*	528	82 *(15·5)*	459 *(86·9)*	—
1936 ..	11	91	255 *(35·6)*	717	80 *(11·2)*	581 *(81·0)*	142 *(19·8)*	71	215	147 *(26·9)*	546	100 *(18·3)*	474 *(86·8)*	58 *(10·6)*
1937 ..	9	46	114 *(18·4)*	619	87 *(14·1)*	412 *(66·6)*	193 *(31·2)*	108	361	217 *(26·2)*	829	133 *(16·0)*	746 *(90·0)*	103 *(12·4)*
1938 ..	9	51	133 *(21·7)*	612	52 *(8·5)*	442 *(72·2)*	207 *(33·8)*	120	415	241 *(27·6)*	872	129 *(14·8)*	774 *(88·8)*	134 *(15·4)*
1939 ..	12	—	163 *(23·3)*	699	60 *(8·6)*	528 *(75·5)*	244 *(34·9)*	118	—	230 *(25·1)*	915	132 *(14·4)*	880 *(96·2)*	213 *(23·3)*
1940 ..	17	105	199 *(25·3)*	788	124 *(15·7)*	549 *(70·0)*	275 *(35·0)*	121	400	242 *(22·2)*	1092	218 *(20·0)*	810 *(74·2)*	207 *(19·0)*
1941 ..	19	204	259 *(30·1)*	860	149 *(17·3)*	619 *(72·0)*	305 *(35·5)*	124	458	254 *(22·4)*	1133	261 *(23·0)*	834 *(73·6)*	273 *(24·1)*
1942 ..	25	263	276 *(20·6)*	1341	353 *(26·3)*	747 *(55·7)*	474 *(35·3)*	136	584	271 *(17·4)*	1560	459 *(29·4)*	1009 *(64·7)*	358 *(22·9)*
1943 ..	35	400	281 *(14·5)*	1934	636 *(33·0)*	992 *(51·3)*	528 *(27·3)*	152	705	317 *(15·2)*	2090	669 *(32·0)*	1253 *(60·0)*	476 *(22·8)*
1944 ..	49	—	468 *(11·7)*	3996	1577 *(39·5)*	1710 *(42·8)*	1067 *(26·7)*	162	—	345 *(13·1)*	2632	787 *(29·9)*	1643 *(62·4)*	588 *(22·3)*
1945 ..	67	811	665 *(10·6)*	6268	2025 *(32·3)*	2892 *(46·1)*	2048 *(33·0)*	188	1023	401 *(11·2)*	3588	1069 *(29·8)*	2037 *(56·8)*	931 *(25·9)*
1946 ..	61	705	666 *(10·3)*	6447	1864 *(28·9)*	3101 *(48·1)*	2358 *(36·6)*	198	908	426 *(11·9)*	3580	787 *(22·0)*	2403 *(67·1)*	996 *(27·8)*
1946£ ..	58		667 *(10·6)*	6272	1827 *(29·1)*	3029 *(48·3)*	2324 *(37·1)*	188		393 *(11·8)*	3333	745 *(22·4)*	2209 *(66·3)*	962 *(29·0)*
1947 ..	68	550	701 *(14·3)*	4907	1050 *(21·4)*	2983 *(60·8)*	1757 *(35·8)*	185	677	387 *(14·1)*	2751	544 *(19·8)*	1987 *(72·2)*	766 *(27·8)*
1948 ..	72	562	750 *(16·3)*	4608	797 *(17·3)*	2908 *(63·1)*	1671 *(36·3)*	191	618	407 *(16·9)*	2410	437 *(18·1)*	1857 *(77·1)*	660 *(27·4)*
1949 ..	78	502	835 *(18·2)*	4599	762 *(16·6)*	3170 *(68·9)*	1553 *(33·8)*	190	574	405 *(19·7)*	2056	341 *(16·6)*	1650 *(80·3)*	587 *(28·6)*
1950 ..	73	466	890 *(19·1)*	4659	651 *(14·0)*	2660 *(57·1)*	2193 *(47·1)*	189	582	410 *(18·8)*	2176	388 *(17·8)*	1676 *(77·0)*	614 *(28·2)*

£ Relating to Indian Union from 1946.

STATEMENT A.XI.2—TREND AND PROGRESS OF COMMERCIAL BANKS—1935-1950 (*Contd.*)

(Amounts in Rs. Lakhs)

Year	Class C Banks: No. of Reporting Banks	Class C Banks: No. of offices	Class C Banks: Paid-up Capital & Reserves	Class C Banks: Deposits	Class C Banks: Cash Balances	Class C Banks: Bank Credit	Class C Banks: Investment in Govt. & Other Securities	Class D Banks: No. of Reporting Banks	Class D Banks: Paid-up Capital & Reserves	Class D Banks: Deposits	Class D Banks: Cash Balances	Class D Banks: Bank Credit	Class D Banks: Investment in Govt. & Other Securities
	28	29	30	31	32	33	34	35	36	37	38	39	40
1935 ..													
1936 ..													
1937 ..													
1938 ..													
1939 ..	111	—	77 *(25·9)*	297	52 *(17·5)*	263 *(88·6)*	42 *(14·1)*	400	76 *(28·9)*	263	38 *(14·4)*	286 *(108·7)*	23 *(8·7)*
1940 ..	120	145	83 *(29·1)*	285	59 *(20·7)*	257 *(90·2)*	44 *(15·4)*	332	60 *(22·1)*	272	47 *(17·3)*	232 *(85·3)*	25 *(9·2)*
1941 ..	123	220	89 *(22·7)*	392	97 *(24·7)*	307 *(78·3)*	65 *(16·6)*	147	26 *(31·0)*	84	13 *(15·5)*	84 *(100·0)*	7 *(8·3)*
1942 ..	137	285	97 *(19·6)*	495	156 *(31·5)*	340 *(69·0)*	80 *(16·2)*	133	23 *(31·0)*	75	13 *(17·3)*	69 *(92·0)*	6 *(8·0)*
1943 ..	141	291	98 *(15·7)*	626	197 *(31·5)*	412 *(65·8)*	105 *(16·8)*	161	29 *(18·2)*	159	44 *(27·7)*	121 *(76·1)*	14 *(8·8)*
1944 ..	113	—	80 *(13·7)*	583	160 *(27·4)*	376 *(64·5)*	118 *(20·2)*	235	46 *(13·2)*	349	104 *(30·0)*	247 *(70·8)*	35 *(10·0)*
1945 ..	137	411	96 *(11·8)*	813	211 *(26·0)*	523 *(64·3)*	167 *(20·5)*	254	49 *(12·1)*	406	117 *(28·8)*	280 *(69·0)*	53 *(13·1)*
1946 ..	135	283	94 *(15·9)*	593	132 *(22·3)*	451 *(76·1)*	100 *(16·9)*	216	42 *(11·7)*	359	81 *(22·6)*	283 *(78·8)*	45 *(12·5)*
1946£ ..	128		89 *(17·1)*	519	110 *(21·2)*	419 *(80·7)*	89 *(17·1)*	168	33 *(11·8)*	279	62 *(22·2)*	214 *(76·7)*	43 *(15·4)*
1947 ..	121	177	85 *(21·0)*	405	77 *(19·0)*	353 *(87·2)*	79 *(19·5)*	170	36 *(13·4)*	269	56 *(20·8)*	214 *(80·0)*	29 *(10·8)*
1948 ..	119	144	85 *(24·3)*	350	61 *(17·4)*	333 *(95·1)*	50 *(14·3)*	158	34 *(17·3)*	197	32 *(16·2)*	163 *(82·7)*	27 *(13·7)*
1949 ..	124	151	90 *(26·4)*	341	61 *(17·9)*	323 *(94·7)*	54 *(15·8)*	129	29 *(18·2)*	159	20 *(12·6)*	137 *(86·2)*	16 *(10·1)*
1950 ..	123	153	88 *(23·8)*	370	81 *(22·0)*	305 *(88·4)*	59 *(15·9)*	124	29 *(22·1)*	131	24 *(18·3)*	116 *(88·5)*	14 *(10·7)*

£ Relating to Indian Union from 1946.
Figures in brackets indicate ratios (in percentages) to Deposits.

STATEMENT A.XI.2—TREND AND PROGRESS OF COMMERCIAL BANKS—1935-1950 (*Contd.*)

(Amounts in Rs. lakhs)

Year	Exchange Banks					
	No. of Reporting Banks	No. of Offices	Deposits	Cash Balances	Bank Credit	Investment in Govt. & Other securities
	41	42	43	44	45	46
1935 ..	17	91	7618	1255 (*16·5*)		
1936 ..	19	95	7523	1035 (*13·8*)		
1937 ..	18	88	7321	1058 (*14·5*)		
1938 ..	18	88	6720	644 (*9·6*)		
1939 ..	19	—	7408	739 (*10·0*)		
1940 ..	20	87	8533	1719 (*20·1*)		
1941 ..	17	84	10673	1340 (*12·6*)		
1942 ..	16	84	11685	1201 (*10·3*)		
1943 ..	16	84	14021	1724 (*12·3*)		
1944 ..	15	79	16521	2482 (*15·0*)		
1945 ..	15	77	18374	2682 (*14·6*)		
1946 ..	15@	77	18128	3202 (*17·7*)		
1946£ ..	28		18157	2387 (*13·1*)	7167 (*39·5*)	
1947 ..	23	60	17417	3126 (*17·9*)	9777 (*56·1*)	
1948 ..	20	62	16737	1786 (*10·7*)	11567 (*69·1*)	
1949 ..	21	64	16620	1951 (*11·7*)	12217 (*73·5*)	5033 (*30·3*)
1950 .	21	62	17447	1925 (*11·0*)	13582 (*77·8*)	4964 (*28·5*)

@ Exchange Banks include other foreign banks also.
£ Relating to Indian Union from 1946.
Figures in brackets indicate ratios (in percentages) to Deposits.

Note: Since 1935 following the enactment of the Reserve Bank of India Act, 1934, such Class A Banks as have been included in the Second Schedule to that Act, are termed *Class A1 Banks*, while the other Class A Banks are termed *Class A2 Banks.* Banks with paid-up capital of Rs. 5 lakhs and over are termed as Class A Banks.
—The coverage has been increased to include Class C and Class D Banks from 1939. Banks with paid-up capital and reserves of Rs. 50,000 and over but less than Rs. 1 lakh are termed *Class C Banks.* Banks with paid-up capital and reserves of less than Rs. 50,000 are termed *Class D Banks.*

Source: *Banking and Monetary Statistics of India*, Reserve Bank of India, Bombay, 1954.

STATEMENT A.XI.3 TREND AND PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT, 1916-1951

(Amounts in Rs. lakhs)

As on 30th June	State Co-operative Banks				Central Co-operative Banks				Agricultural Co-operative Societies			
	Member-ship (in thousands)	Working Capital	Depo-sits +	Over-dues	Member-ship (in thousands)	Working Capital	Depo-sits +	Overdues	Member-ship (in thousands)	Working Capital	Depo-sits +	Over-dues
1	2	3	4	5	6	7	8	9	10	11	12	13
1916 ..	1555	77	64	58	11788	323	266	288	17729	516	379	469
1917 ..	2069	140	121	125	15457	345	277	306	20990	602	444	548
1918 ..	2529	180	155	165	18059	401	320	356	23741	689	507	617
1919 ..	2716	223	194	171	21396	506	406	439	28977	809	593	716
1920 ..	2830	242	212	194	29120	643	521	575	36299	965	714	856
1921 ..	5320	284	245	237	35622	823	677	735	42149	1172	884	1048
1922 ..	5565	338	296	259	41279	987	817	857	46344	1332	1002	1183
1923 ..	5744	395	349	260	46044	1138	940	965	49830	1476	1104	1309
1924 ..	5916	448	397	298	50320	1319	1095	1106	54203	1655	1233	1468
1925 ..	10821	504	444	332	65383	1619	1351	1353	63873	1961	1443	1782
1926 ..	13283	624	553	357	74596	1957	1650	1607	70733	2293	1685	2056
1927 ..	15987	708	627	417	84545	2377	2024	1943	78538	2696	1988	2292
1928 ..	18220	794	699	434	93184	2691	2297	2190	84559	3009	2191	2672
1929 ..	17917	801	708	401	97576	2867	2435	2305	87991	3238	2325	2846
1930 ..	18568	862	761	497	101499	3090	2619	2460	91786	3493	2486	3048
1931 ..	18630	898	790	527	90692	3067	2571	2436	93512	3594	2503	3147
1932 ..	18774	989	874	486	90589	3062	2542	2345	93349	3509	2350	2979
1933 ..	18498	1150	1030	431	89572	3142	2588	2231	92503	3439	2219	2883
1934 ..	18690	1101	971	429	89392	3087	2504	2124	92226	3399	2105	2792

STATEMENT A.XI.3 TREND AND PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT, 1916-1951 (*Contd.*)

(Amounts in Rs. lakhs)

As on 30th June	State Co-operative Banks				Central Co-operative Banks				Agricultural Co-operative Societies			
	Membership (in thousands)	Working Capital	Deposits +	Overdues	Membership (in thousands)	Working Capital	Deposits +	Overdues	Membership (in thousands)	Working Capital	Deposits +	Overdues
1	2	3	4	5	6	7	8	9	10	11	12	13
1935 ..	19364	1164	1008	498	89084	2940	2330	2040	92920	3422	2074	2742
1936 ..	19283	1263	1082	545	89723	2943	2314	2023	94193	3459	2063	2719
1937 ..	19234	1258	1075	573	91293	2950	2299	1969	95989	3459	2039	2696
1938 ..	19158	1232	1043	624	91836	2910	2257	1959	95706	3196	1846	2447
1939 ..	19080	1294	1087	664	96106	2942	2277	1992	105301	3162	1884	2480
1940 ..	18974	1341	1117	701	104130	2922	2237	1975	118744	3051	1816	2395
1941 ..	18838	1389	1152	700	121292	2932	2228	1898	123723	3053	1787	2331
1942 ..	18778	1454	1227	658	110619	2984	2254	1878	126205	3020	1722	2263
1943 ..	18695	1748	1515	564	111528	3285	2547	1892	126034	2908	1581	2158
1944 ..	19171	1874	1628	616	115471	3659	2887	1856	134801	2985	1548	1954
1945 ..	19519	2059	1787	637	116411	3982	3176	1909	136358	3053	1524	2091
1946 ..	20057	2490	2187	654	118094	4508	3662	2036	146958	3301	1656	2232
1947 ..	8106	2198	1944	906	85964	4019	3382	2113	116913	3056	1644	2044
1948 ..	8505	2405	2145	896	88344	4190	3520	2178	125607	3470	1788	2317
1949 ..	8900	3112	2819	1676	93829	4812	4085	2902	134815	4541	2604	2626
1950 ..	10915	3045	2702	1412	99123	4987	4180	2892	142394	4836	2628	—
1951 ..	12666	3442	3062	1790	107482	5637	4754	3414	149277	5750	3224	—

Note : From 1947, figures relate to Indian Union.
Source : Banking and Monetary Statistics of India, Reserve Bank of India, Bombay, 1954.
\+ Figures of deposits include loans also.

STATEMENT A.XI.4 TREND AND PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT (1951-52 to 1969-70)

	1951-52	1960-61	1965-66	1966-67	1967-68	1968-69	1969-70
Agricultural Credit Societies							
No. of societies (lakhs)	1·08	2·12	1·92	1·79	1·72	1·68	1·63
No. of villages covered (lakhs)	—	4·23	5·03	5·07	5·26	5·35	5·33
Membership (lakhs)	48	170	261	267	281	292	298
Percentage of Membership to rural households	—	*23·7*	*32·3*	*32·0*	*34·7*	*34·6*	*35·4*
No. of dormant societies (thousands)	—	41	24	25	22	21	19
Percentage of dormant societies to total	—	*19·3*	*12·3*	*14·0*	*13·2*	*12·5*	*11·7*
Percentage of borrowing members to :							
(*a*) Total membership	—	*52·6*	*41·6*	*39·7*	*38·4*	*38·0*	*39·4*
(*b*) Cultivator households (estimated)	—	*17·8*	*19·1*	*17·8*	—	*20·0*	—
Share capital (Rs. crores)	9	58	115	129	148	167	189
(Of which Government contribution)	(—)	(6)	(10)	(11)	(12)	(13)	(15)
Owned Funds (Rs. crores)	18	76	149	165	191	215	241
Deposits (Rs. crores)	4	15	34	39	47	57	63
Loans issued							
Short-term (Rs. crores)	—	183	305	325	393	456	488
Medium-term (Rs. crores)	—	20	37	40	35	47	52
Total (Rs. crores)	24	203	342	365	428	502	540
Loans outstanding (Rs. crores)	34	218	427	477	534	619	711
Overdues (Rs. crores)	9	44	125	160	171	214	268
Percentage of overdues to outstanding loans	*25·3*	*20·3*	*29·4*	*33·5*	*32·0*	*34·6*	*37·7*
Average per Member							
Share capital (Rs.)	19	34	44	48	53	57	63
Deposits (Rs.)	9	9	13	15	17	19	21
Loans advanced (Rs.)	51	119	131	137	153	173	181
Average per Society							
Membership	44	80	136	149	163	174	183
Share capital (Rs. thousands)	0·8	3	6	7	9	10	12
Deposits (Rs. thousands)	0·4	0·7	2	2	3	3	4
Loans advanced (Rs. thousands)	2	10	18	20	25	30	33
Central Co-operative Banks			(Amounts in crores of rupees)				
Number	509	390	346	346	344	341	340
Number of offices	779	1445	2475	2648	2849	3124	3438
Share capital	5	39	76	86	101	115	128
(Of which Government contribution)	(—)	(10)	(19)	(22)	(27)	(30)	(33)
Reserves	5	12	26	30	34	40	46
Total owned funds	10	51	102	116	135	155	174
Deposits							
From Co-operatives	11	45	105	115	128	148	154
From others	27	67	132	144	173	203	228
Total	38	112	237	259	301	351	382

STATEMENT A.XI.4 TREND AND PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT (1951-52 to 1969-70) (*Contd.*)

	1951-62	1960-61	1965-66	1966-67	1967-68	1968-69	1969-70
	(Amounts in crores of rupees)						
Loans advanced							
For agricultural purposes	—	243	454	483	535	600	650
For non-agricultural purposes	—	110	228	179	258	260	223
Total	106	353	682	662	727	860	873
Loans outstanding	36	220	438	499	550	641	740
Overdues	5	27	87	124	136	173	215
Percentage of overdues to outstanding loans	*13·5*	*12·5*	*19·9*	*24·9*	*24·7*	*27·0*	*29·0*
State Co-operative Banks							
Number	16	21	22	25	25	25	25
Share capital	2	18	29	31	35	38	40
(Of which Government contribution)	(—)	(6)	(10)	(10)	(12)	(12)	(12)
Reserves	2	6	16	25	30	38	43
Total owned funds	4	24	45	56	65	75	83
Deposits							
From Co-operatives	8	44	100	95	122	145	165
From Others	13	28	47	52	58	71	69
Total	21	72	147	147	180	216	234
Loans Advanced							
For Agricultural purposes	—	189	266	341	383	490	574
For Non-agricultural purposes	—	69	180	92	161	177	133
Total	55	258	446	433	540	667	707
Loans outstanding	20	167	308	325	358	459	510
Overdues	3	7	9	17	18	23	28
Percentage of overdues to outstanding loans	*16·1*	*4·2*	*3·0*	*5·2*	*5·0*	*5·0*	*5·5*
Borrowing from Reserve Bank	7	114	166	163	167	225	243
Central Land Development Banks							
Number	6	18	18	19	19	19	19
Number of primary land development banks	289	463	673	707	731	740	809
No. of offices of central land development banks	—	—	350	397	455	488	503
Total debentures outstanding	8	37	178	232	300	426	571
Total debentures issued during the year	—	10	50	58	70	131	152
Total loans issued	3	12	56	59	92	144	153
Overdues	0·04	1·2	3·0	4·5	2·3	3·8	5·4
Percentage of overdues to outstanding loans	*0·4*	*3·3*	*1·9*	*2·2*	*0·82*	*0·96*	*1·0*

Source: (1) Statistical Statements Relating to the Co-operative Movement in India.
(2) *Report of the All-India Rural Credit Review Committee*, Reserve Bank of India, Bombay, 1969.

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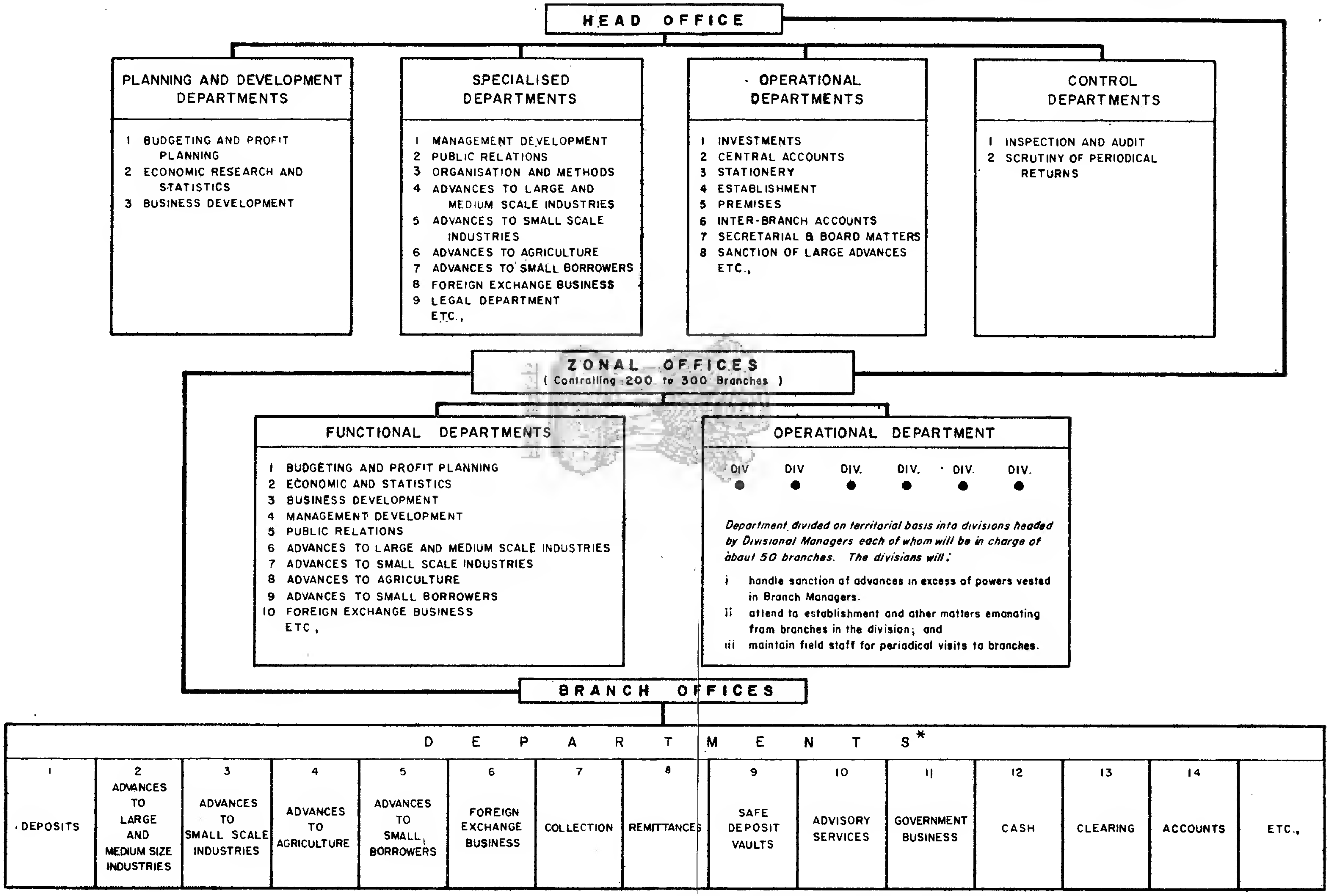
CHART 15·I

PROPOSED INTERNAL ORGANISATION OF NATIONAL BANKS



*Note i Departments will be headed by Officer-in-Charge suitably designated.
ii Number of departments in each branch will depend upon the range of activities and volume of business.